



HILLINGDON
LONDON



Audit Committee

Members of the Committee

John Chesshire (Chairman)
Councillor Martin Goddard (Vice-Chairman)
Councillor Tony Eginton
Councillor Duncan Flynn
Councillor Edward Lavery

Date: MONDAY 3 FEBRUARY
2020

Time: 5.10 PM

Venue: COMMITTEE ROOM 4 -
CIVIC CENTRE, HIGH
STREET, UXBRIDGE

Meeting Details: Members of the Public and
Media are welcome to attend
this meeting

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Published: Friday 24 January 2020

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Putting our residents first

Lloyd White
Head of Democratic Services
London Borough of Hillingdon,
Phase II, Civic Centre, High Street, Uxbridge, UB8 1UW

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Terms of Reference

The Constitution defines the terms of reference for the Audit Committee as:

Introduction

The Audit Committee's role will be to:

- Review and monitor the Council's audit, governance, risk management framework and the associated control environment, as an independent assurance mechanism;
- Review and monitor the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and/or weakens the control environment;
- Oversee the financial reporting process of the Statement of Accounts.

Decisions in respect of strategy, policy and service delivery or improvement are reserved to the Cabinet or delegated to Officers.

Internal Audit

1. Review and approve (but not direct) the Internal Audit Strategy to ensure that it meets the Council's overall strategic direction.
2. Review, approve and monitor (but not direct) Internal Audit's planned programme of work, paying particular attention to whether there is sufficient and appropriate coverage.
3. Through quarterly Internal Audit summary reports of work done, monitor progress against the Internal Audit Plan and assess whether adequate skills and resources are available to provide an effective Internal Audit function. Monitor the main Internal Audit recommendations and consider whether management responses to the recommendations raised are appropriate, with due regard to risk, materiality and coverage.
4. Make recommendations to the Leader of the Council or Cabinet Member for Finance, Property and Business Services on any changes to the Council's Internal Audit Strategy and Internal Audit Plans.
5. Review the Annual Internal Audit Report and Opinion Statement and the level of assurance this provides over the Council's corporate governance arrangements, risk management framework and system of internal controls.
6. Consider reports dealing with the activity, management and performance of Internal Audit.
7. Following a request to the Corporate Director of Finance, and in consultation with the Leader of the Council or Cabinet Member for Finance, Property and Business Services, to request work from Internal Audit.

External Audit

8. Receive and consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.
9. Monitor management action in response to issues raised by External Audit.
10. Receive and consider specific reports as agreed with the External Auditor.
11. Comment on the scope and depth of External Audit work and ensure that it gives value for money, making any recommendations to the Corporate Director of Finance.
12. Be consulted by the Corporate Director of Finance over the appointment of the Council's External Auditor.
13. Following a request to the Corporate Director of Finance, and in consultation with the Leader of the Council or Cabinet Member for Finance, Property and Business Services, to commission work from External Audit.
14. Monitor arrangements for ensuring effective liaison between Internal Audit and External Audit, in consultation with the Corporate Director of Finance.

Governance Framework

15. Maintain an overview of the Council's Constitution in respect of contract procedure rules and financial regulations and where necessary bring proposals to the Leader of the Council or the Cabinet for their development.
16. Review any issue referred to it by the Chief Executive, Deputy Chief Executive, Corporate Director, any Council body or external assurance providers including Inspection agencies.
17. Monitor and review, but not direct, the authority's risk management arrangements, including regularly reviewing the Corporate Risk Register and seeking assurances that appropriate action is being taken on managing risks.
18. Review and monitor Council strategy and policies on anti-fraud and anti-corruption including the 'Raising Concerns at Work' policy, making any recommendations on changes to the relevant Corporate Director in consultation with the Leader of the Council.
19. Oversee the production of the authority's Annual Governance Statement and recommend its adoption.
20. Review the Council's arrangements for corporate governance and make recommendations to the Corporate Director of Finance on suggested actions to improve alignment with best practice.
21. Where requested by the Leader of the Council or Cabinet Member for Finance, Property and Business Services or Corporate Director of Finance, provide recommendations on the Council's compliance with its own and other published standards and controls.

Accounts

22. Review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from financial statements or from the external auditor that need to be brought to the attention of the Council.
23. Consider the External Auditor's report to those charged with governance on issues arising from the external audit of the accounts.

Review and reporting

24. Undertake an annual independent review of the Audit Committee's effectiveness and submit an annual report to Council on the activity of the Audit Committee.

Agenda

PART I

- 1 Apologies for absence
- 2 Declarations of interest
- 3 To confirm that all items marked Part I will be considered in Public and that any items marked Part II will be considered in Private
- 4 Minutes of the Meeting held on 21 October 2019 1 - 6
- 5 EY 2019/20 Annual Audit Plan & Pension Fund Audit Plan 7 - 100
- 6 Internal Audit Progress Report for 2019/20 Quarter 3 (including the Quarter 4 IA Plan) 101 - 124
- 7 2019/20 Quarter 3 Counter Fraud Progress Report 125 - 138
- 8 Audit Committee Forward Programme 139 - 142

PART II

That the reports in Part 2 of this agenda be declared not for publication because they involve the disclosure of information in accordance with Section 100(A) and Part 1 of Schedule 12 (A) to the Local Government Act 1972 (as amended), in that they contain exempt information and that the public interest in withholding the information outweighs the public interest in disclosing it.

- 9 2019/20 Quarters 2 and 3 Corporate Risk Register 143 - 162

Minutes

Audit Committee

Monday, 21 October 2019

**Meeting held at Committee Room 4 - Civic Centre,
High Street, Uxbridge**



Published on:

Come into effect on: Immediately (or call-in date)

Committee Members Present:

John Chesshire (Chairman)

Councillors: Martin Goddard (Vice-Chairman), Ray Graham (In place of Susan O'Brien), Eddie Lavery and Jazz Dhillon (In place of Tony Eginton)

Also Present:

Adrian Balmer – Ernst & Young LLP

Suresh Patel – Ernst & Young LLP

Officers Present:

Paul Whaymand - Corporate Director of Finance

Muir Laurie – Deputy Director of Exchequer & Business Assurance Services

Sian Kunert – Head of Pensions, Treasury & Statutory Accounts

Sarah Hydrie – Head of Internal Audit & Risk Assurance

Zac O'Neil – Head of Counter Fraud

Stephanie Rao – Internal Audit, Risk & Insurance Manager

James Lake – Lead Corporate Accountant

Neil Fraser – Democratic Services Officer

60. APOLOGIES FOR ABSENCE

Apologies were received from Councillors Eginton and O'Brien. Councillors Dhillon and Graham were present as their respective substitutes.

61. DECLARATIONS OF INTEREST

None.

62. TO CONFIRM THAT ALL ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THAT ANY ITEMS MARKED PART II WILL BE CONSIDERED IN PRIVATE

It was confirmed that items 1-10 were marked as Part 1, and would therefore be considered in public. Items 11 and 12 were Part 2, and would be considered in private.

63. MINUTES OF THE MEETING HELD ON 22 JULY 2019

RESOLVED: That the minutes of the meeting held on 22 July 2019 be approved as a correct record.

64. INTERNAL AUDIT PROGRESS REPORT FOR 2019/20 QUARTER 2 (INCLUDING THE QUARTER 3 IA PLAN)

The Committee received the Internal Audit (IA) Progress Report for 2019/20 Quarter 2, and IA Plan for Quarter 3, which provided summary information on all IA work covered in relation to 2019/20, together with assurance levels in this respect.

It was noted that since the last IA Progress Report, eight assurance reviews (including two follow-ups) had concluded, four grant claims had been certified and one consultancy review had been finalised. The administration of the Hillingdon Shared Lives Fund had been added to the IA plan for Quarter 2.

The majority of Key Performance Indicators (KPIs) were being exceeded, including achieving over 85% for client satisfaction.

Quarter 2 had seen a number of changes to staffing, with a senior auditor leaving the organisation. Following this departure, two new internal candidates had been recruited to internal auditor posts. In addition, the Risk and Insurance Manager has joined the IA team on an interim basis. The 'new to IA' transition of these three staff was planned for Quarter 3, though to avoid any negative impact on the delivery of the IA plan, support from our contract partner (Mazars) could be required.

The Committee sought further information on the implementation of previous IA recommendations. In response, officers advised that the high risk rating for the IA recommendation into compliance with the Criminal Finances Act specifically concerned schools and their compliance with the Act. Further training and education was required, though it was felt that internal controls, within the Council, were sufficiently robust. Regarding the implementation of risk recommendations relating to Cyber Security, the remaining implementations were reliant on the Council's ICT and Digital Transformation teams identifying solutions and then securing the requisite capital investment.

In general, better education of managers on what 'implemented' meant, and the evidence required to support an assertion that an IA recommendation had been implemented, was required to ensure reporting was accurate. However, it was highlighted that over the last six years, better engagement with officers and managers had resulted in significant improvement on the implementation of IA recommendations.

The Committee requested that, moving forward, report authors include detail of manned days within interim reports, rather than reserving this data for the annual report.

RESOLVED:

- 1) That the IA Progress Report for 2019/20 Quarter 2 be noted;**
- 2) That approval be given to the Quarter 3 IA Plan for 2019/20;**
- 3) That report authors include detail of manned days within interim reports; and**

- 4) **That the Committee noted the coverage, performance and results of Business Assurance IA activity within this quarter.**

65. EXTERNAL AUDIT ANNUAL AUDIT LETTER

The Committee received a report detailing EY's Annual Audit Letter, which provided a summary of the results and conclusions from EY's audit work undertaken for the year ended 31 March 2019.

The Committee was informed that, as per the report, an unqualified opinion had been offered as of 2 August 2019. Since then, work was progressing on providing a consistency opinion of the Pensions Fund Annual report, which was due for completion as of 1 December 2019. Once completed, EY would issue the Audit Certificate.

The report referred to an objection received from a member of the public that required senior team members to respond; this had now been concluded.

Audit fees had been agreed, subject to approval by the PSAA. Non-audit services: Housing Benefits and Teachers Pensions, would be completed before the 31 October deadline, while pooled capital receipts were potentially subject to delay as instructions were awaited from central government.

The Committee expressed their concern and disappointment that the audit had not been signed by the 31 July deadline. It was agreed that a briefing be provided by EY prior to the next Committee meeting, to allow EY to share further detail on how they would aim to ensure that this was not repeated.

EY confirmed that the issue was largely one of resource, which had since been resolved following the successful recruitment of new staff. In addition, it was suggested that greater engagement with officers, and early communication of potential issues, would be good practice moving forward.

RESOLVED:

1. **That the report be noted;**
2. **That EY provide a briefing for Members prior to the next Committee meeting.**

66. COUNTER FRAUD PROGRESS REPORT QUARTER 2 2019/20

The Committee received a report detailing the work being undertaken by the Business Assurance Counter Fraud Team (BACFT) in relation to 2019/20 Quarter 2 and assurances in this respect.

It was reported that, during Quarter 2 of 2019/20, the BACFT had achieved successful loss prevention outcomes totalling £493,073, a 19% increase over Quarter 1. A total of eight Council properties had been recovered, an improvement on 2018/19 in terms of half year results. In addition, BACFT had investigated and

stopped three cases of Right to Buy fraud and three cases of suspected Housing fraud were being progressed for criminal prosecution

It was confirmed that, as of 30 September 2019, remaining staff vacancies within the Verifications and Intelligence sub-teams had been filled and the BACFT was now fully resourced for the first time in several years

Quarter 2 results of the Home Officer Immigrating Officer (IEO) within BACFT had resulted in £72,861 in loss prevention, and figures were on track to exceed last year's loss prevention contribution.

The proposal for the Council to join the London Counter Fraud Hub had received Cabinet Member approval and was pending, subject to communication from the lead authority before contractual paperwork could be signed.

Financial savings resulting from council wide data matches had recently been made available by the Cabinet Office and indications were that there were additional financial savings across the Council. To date, these savings totalled £301,322, though these figures had not been included in the loss prevention savings reported by BACFT as the Cabinet Office NFI figures were extrapolated across several years.

BACFT performance against KPIs had shown improvement, with 5 of 8 targets now being exceeded overall. When considering only Quarter 2, this figure rose to 6 of 8. Work to improve performance against KPI 5: investigation resulting in sanctions, as well as general work within Social Services, was continuing. The BACFT was planning a campaign to raise fraud awareness across the Council, and this would include training and workshop days.

Work to address 'Beds in Sheds' was targeted for Quarter 3, and would include a proactive, collaborative project, incorporating data from many departments including Exchequer Services, Housing and the Planning enforcement teams. This work could impact on the area of HMOs and private landlords, which meant that the Private Sector Housing Team would also be involved in this project. Work to ensure that HMOs were fulfilling the conditions of their licences had resulted in better outcomes. Further IA work to review private sector housing, including HMOs, was scheduled for Quarter 4.

Regarding Blue Badge Holder fraud, since last year, referrals and fraudulent behaviour identified during officer visits had been seen to have declined. Resources had therefore been reduced in line with the identified risk, though this could be reviewed if complaints were seen to rise. The Counter Fraud Team would be conducting one proactive project this year and would continue to investigate referrals of serious misuse of a Blue Badge.

RESOLVED: That the Counter Fraud Progress Report for 2019/20 Quarter 2 be noted.

67. ANNUAL REPORT OF THE AUDIT COMMITTEE 2018/19

The Committee received a report detailing the information proposed to be presented to Council as the Audit Committee's Annual Report for 2018/19. Members were satisfied that the Audit Committee had discharged its duties under its Terms of Reference.

RESOLVED: That the report be noted.

68. AUDIT COMMITTEE MEMBER SKILLS MATRIX

The Committee received a report detailing the current skills matrix, which was approved by the Audit Committee in July 2018. Members were asked to comment on whether the skills matrix was still relevant and whether there were any suggestions for further training.

It was agreed that the matrix be approved, subject to the removal of Treasury Management, which was no longer required under the Committee's Terms of Reference.

RESOLVED: That the Member skills matrix be approved, subject to the removal of Treasury Management.

69. AUDIT COMMITTEE FORWARD PROGRAMME 2019/20

Consideration was given to the Committee's work programme. Members were advised that further meeting dates were under consideration, and would be communicated to the Committee once finalised.

RESOLVED: That the work programme be noted.

70. 2019/20 Q1 CORPORATE RISK REGISTER

This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).

The Corporate Risk Register for Quarter 1 (April to June 2019) report was presented to Members. The report provided evidence about how identified corporate risks were being managed and the actions which were being taken to mitigate those risks.

RESOLVED – That the Committee reviewed the Corporate Risk Register for Quarter 1 (April to June 2019), as part of the Committee's role to independently assure the strategic risk management arrangements in the Council.

71. ANNUAL RISK MANAGEMENT REPORT 2018/19

This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).

The report presented to Members the Risk Management Annual Report 2018/19. The report provided evidence about the movement of individual corporate risks across the year, how they have been managed by the Council and horizon scanning for the future.

RESOLVED: That the Committee reviewed the 2018/19 report as part of its role to independently assure the Council's corporate risk management arrangements.

EY 2019/20 ANNUAL AUDIT PLAN & PENSION FUND AUDIT PLAN

Committee name	Audit Committee
Officer reporting	James Lake, Finance
Papers with report	EY Hillingdon Audit Plan 2019/20 EY Pension Fund Audit Plan 2019/20 EY Audit Committee Briefing December 2019
Ward	All

HEADLINES

The attached documents set out the initial plans for the 2019/20 audit by the Councils external auditors EY. The plans set out the approach to the audit of the Council's Accounts and the Pension Fund Accounts including a broad timetable which should enable the whole process to be completed by the end of July 2020. Whilst the Pension Fund forms part of the Councils published Financial Statement of Accounts, a separate plan is prepared for that audit.

RECOMMENDATIONS:

That the Committee:

1. Note this report

SUPPORTING INFORMATION

Council Financial Statements Audit Plan

Materiality: The materiality level for 2019/20 is £12.97m based on 1.8% of forecast gross expenditure (2018/19, 1.8%, £12.84m). EY plan to report on all uncorrected audit misstatements greater than £0.65m (2018/19 £0.64m).

Key Financial Statement Risks: The plan highlights the key audit risks, these being the main areas on which specific audit work will focus. Two new risks have been added for 2019/20 including 'Valuation of Schools' and 'Accounting for the Dedicated Schools Grant' whilst the 'IAS19 Valuation' risk has been reclassified as not significant. The key risks for 2019/20 are as follows:

- Risk of management override
- Risk of inappropriate capitalisation of revenue expenditure
- PPE valuations
- Valuation of Schools
- Accounting for Dedicated Schools Grant

Other areas of audit focus not classified as significant risk, but are still material when considering risks of misstatement include:

- Consideration of Group Boundary (Hillingdon First Ltd)
- New accounting standards (IFRS16)
- Pension Liabilities and the IAS19 valuations

In addition the auditors' have a statutory duty to provide a value for money conclusion by considering whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in the use of its resources.

The Council is responsible for appointing its own reporting auditor for the Housing Benefit Assurance Process and certification of the Housing Benefit Subsidy Claim. This will be done along with the Teachers Pension Contributions and Capital Receipts Pooling certification process.

Fees

The proposed fee for the 2019/20 audit for the main accounts is £121,096 (Final fee for 2018/19 - £131,123)

Pension Fund Audit Plan

Materiality: Materiality remains on a basis of 1.0% of the prior year's net assets of the fund, which for 2019/20 is estimated as £10.7m (2018/19 £10.1m). Based on this amount, EY would expect to report on all unadjusted misstatements greater than £0.533m (2018/19 £0.506m).

Key Financial Statement Risks: The plan highlights the key audit risks, these being the main areas on which specific audit work will focus. For 2019/20 the risk of 'Management Override' has been removed; the two audit risk areas remain include:

- Risk of misstatement of Investment Income and Valuation through journals
- Valuation of Unquoted Investments

There are no specific listed areas of audit focus classified as not having significant risk.

Fees

Classification: Public
Audit Committee – 3 February 2020

The proposed fee for the 2019/20 audit is £16,170. (Final fee for 2018/19 £17,435).

Timetable

The timetable for both audits accommodate the deadline for completed draft accounts 31 May 2020 and the audit opinion due by 31 July 2020.


Financial Implications

Included within the body of this report.

Legal Implications

None.

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A photograph of a meeting table with documents and hands pointing at them. The table is white, and there are several sheets of paper with text on it. A person's hand is pointing at a document on the left, and another person's hand is pointing at a document on the right. A smartphone is visible on the table. The background is slightly blurred, showing a person in a yellow shirt.

London Borough of Hillingdon Draft Outline Audit Planning Report

Year ended 31 March 2020
20 January 2020

20 January 2020



Audit Committee
London Borough of Hillingdon
Uxbridge
UB8 1UW

Dear Audit Committee Members

Outline audit planning report

We are pleased to attach our Outline Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. We are currently completing our detailed planning procedures and will update the Committee if we identify any further risks or change our audit strategy.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 03 February 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S Patel', written in a cursive style.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of London Borough of Hillingdon in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of London Borough of Hillingdon those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of London Borough of Hillingdon for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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Overview of our 2019/20 audit strategy



Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risks	Risk identified	Change from PY	Details
Management Override: Misstatements due to fraud or error	Fraud risk / Significant risk	No change in risk	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of inappropriate capitalisation of revenue expenditure	Fraud risk/ Significant risk	No change in risk	For 2019/20, we have identified that there is a risk of inappropriate capitalisation of revenue spending.
Valuation of schools	Significant risk	New risk	As at 31 March 2019 the Council's schools are valued at approx. £700 m following a £300m upwards revaluation in the prior year. Given the magnitude of the valuations and sensitivity around judgements and assumptions there is a risk that the 2019/20 valuation could be materially misstated.
Accounting for the Dedicated Schools Grant (DSG)	Significant risk	New risk	As at 31 March 2019 the Council reported a negative DSG balance of £8.7m. In year forecasts highlight further pressures on the DSG with the latest forecast estimating a year end outturn of £13-14m. Under the CIPFA Code negative reserves are not permitted. In 2018/19 the negative DSG balance was offset by other School balances resulting in a net year end balance on the Schools Reserve of £2.7m . There is risk that the Council will be unable to do the same for 2019/20.
Valuations of Property, Plant and Equipment (PPE) and Investment Property (IP)	Inherent risk	No change in focus	The carrying amount of PPE and the fair value of IP represent significant balances in the Council's accounts and are subject to impairment reviews, depreciation charges and valuation changes, respectively. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is an inherent risk of material misstatement.

Overview of our 2019/20 audit strategy

Audit risks and areas of focus (continued)

Risks	Risk identified	Change from PY	Details
Pension liabilities and the IAS 19 valuations	Inherent risk	Change in focus as a result of the triennial review	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administration provided by Surrey County Council. For 2019/20 the Council will need to consider the impact of the triennial review of the Fund as well as the potential for ongoing impact of the national issue relation to Guaranteed Minimum Pension (GMP).
Consideration of Group Boundary	Inherent risk	No change in focus	During 2018/19, Hillingdon created a housing company, Hillingdon First Limited. Depending on the qualitative and quantitative size of the company, the finance team will need to consider the need to prepare Group Accounts. No such requirement arose in the 2018/19 accounts. We will re-assess the interpretation of the preparation of Group Accounts as part of the 2019/20 audit.
New Accounting Standards - IFRS 16	Inherent risk	Change in focus	There is one new accounting standard which is applicable to local government accounts from the 2020/21 financial year onwards, which might require transitional disclosures in the 2019/20 accounts.

Overview of our 2019/20 audit strategy

Materiality

Planning
materiality
£12.97m

Consistent with our prior year's approach, we calculated our planning materiality as 1.8% of the forecast gross expenditure (based on the PY outturn) of the Council. As a result, our planning materiality for the audit planning purposes is consistent with the prior year's final materiality.

Performance
materiality
£9.73m

Performance materiality represents 75% of planning materiality, consistent year on year.

Audit
differences
£0.65m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account, and collection fund) greater than £0.65m. We will communicate other misstatements identified to the extent that they merit the attention of the Audit Committee.

Overview of our 2019/20 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of London Borough of Hillingdon give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this outline audit plan, our professional responsibilities require us to independently assess the risks of providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with Public Sector Audit Appointments (PSAA) allow them to vary the fee dependent on 'the auditors assessment of risk and the work needed to meet their professional responsibilities'. PSAA are aware that the setting of scale fees has not kept up to date with the changing requirements of external audit with increased focused on, for example, valuations of PPE and investment property, pension obligations, the auditing of groups and the introduction of new accounting standards such as IFRS 15 and 9 in recent years as well as the expansion of factors impacting on the value for money conclusion. In Section 8 we have highlighted where additional work will be required for 2019/20 at this stage. We will discuss with management a the associated fees as the audit progresses.



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02 Audit risks



Our response to significant risks

**Management Override:
Misstatements due to fraud
or error**
(Fraud Risk)

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error due to management override of internal controls.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For London Borough of Hillingdon, we have assessed that this risk could manifest in:

- Inappropriate journal entries; specifically manual journals posted by management in the preparation of the financial statements.
- Significantly unusual transactions entered into by management that are outside of the normal scope of business of the Council.
- Management bias in key accounting estimates and judgements.

What will we do?

We will:

- ▶ Identify fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Perform mandatory procedures in relation to journal entries, and other adjustments made in the preparation of the financial statements.
- ▶ Assess the nature of any significantly unusual transactions identified.
- ▶ Consider if management bias is present in the key accounting estimates and judgements in the financial statements.

Our response to significant risks (continued)

Inappropriate capitalisation of revenue expenditure

What is the risk?

Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services.

The Council's Constitution requires the Corporate Director of Finance to prepare a Capital Strategy which;

- a. Sets out the principles the Council will follow in its capital planning.
- b. Outlines the methodology for inclusion of schemes within the Capital Programme.
- c. Sets out the arrangement for management of capital schemes.
- d. Identifies the capital schemes to be undertaken over the following four financial years and how those schemes will be funded.

Achievement of budget is critical to minimizing the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the council and management, and therefore this desire to achieve the budget increases the risk that the financial statements may be materially misstated.

Whilst there is no more than normal pressure on the Council to meet the outturn position, due to the size of the capital programme (£105m) there is a risk of inappropriate capitalisation of revenue expenditure.

What will we do?

- ▶ Review of the capital programme to assess what schemes are included and identify anything unusual or unexpected;
- ▶ Review capital expenditure incurred by the Council to ensure that it has been correctly classified as capital rather than revenue; and
- ▶ We will specifically test PPE additions with a specific focus on incorrect capitalisation of revenue expenditure.

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

Our response to significant risks (continued)

Dedicated Schools Grant (DSG) Reserve

What is the risk?

The Council is forecasting a year end deficit on DSG of £13-14m. The CIPFA Code does not permit the use of negative reserves.

At the date of this report there is uncertainty as to whether the Department for Education will provide funding to councils impacted by this issue.

There is a risk that the Council’s accounting treatment of the DSG balance will not be in line with the Code.

We have considered the potential impact on the Council’s financial resilience as part of the value for money conclusion in Section 3.

What will we do?

- ▶ Continue to monitor the in year position of the DSG as well as the likely year end outturn position;
- ▶ Review the plan submitted to reduce the impact of the negative DSG position over the medium term;
- ▶ Discuss the position with senior officers to understand any possible mitigation or the latest guidance regarding the disclosure of, and accounting for, negative reserves in the 2019/20;
- ▶ Consider any guidance from CIPFA which may be relevant in auditing the year end accounts.

Our response to significant risks (continued)

Valuation of Schools

What is the risk?

The carrying amount of Schools is a significant balance in the Council's accounts and are subject to impairment reviews, depreciation charges and valuation changes, respectively. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What will we do?

- ▶ Understand the Council's approach to schools assets and the valuation methodology to be adopted in 2019/20.
- ▶ Determine the impact of any upwards/downwards valuations and based on our materiality levels consider the impact on the 2019/20 financial statements;
- ▶ We will consider using out our internal valuation specialists to challenge management's assumptions and assertions.
- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

Financial statement impact

Misstatements that occur in relation to the incorrect valuation of Schools could result in a material misstatement in the Balance Sheet.

Schools balances are highly material at approx. £700m and are subject to regular review by the external valuers - Wilkes Head and Eve (WHE).

There is a risk that incorrect assumptions could materially impact the year end balances as presented in the Balance Sheet.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Valuation of Land and Buildings

The carrying amount of Property, Plant and Equipment (PPE) and the fair value of Investment Properties (IP) represent significant balances in the Council's accounts and are subject to impairment reviews, depreciation charges and valuation changes, respectively. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What will we do?

We will:

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

Other areas of audit focus (continued)

What is the risk/area of focus?

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Surrey County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £617 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

For 2019/20 the Council will need to take into account the triennial review of the pension fund as well as consider the potential ongoing impact of the national issue relating to GMP.

What will we do?

We will:

- ▶ Liaise with the EY Team as auditors of Hillingdon Pension Fund, to obtain assurances over the information supplied to the actuary in relation to London Borough of Hillingdon. For 2019/20 this will also include the additional information provided to inform the triennial valuation.
- ▶ Assess the work of the Pension Fund actuaries (Hymans and Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- ▶ Consider any updated information in respect of the impact of national issues including GMP; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Audit risks

Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as risks, but are still important when considering the areas of audit focus.

What is the area of focus?

IFRS 16 Leases

The Council will need to make disclosures in its 2019/20 accounts on its adoption of the requirements of IFRS 16 for financial years commencing 1 April 2020. The new standard will eliminate the distinction between operating and finance leases for lessees and it is expected that significant work will be required by officers to identify all of the leases that it has in place at 1 April 2020. Readiness assessment is encouraged to prepare for the upcoming implementation.

What will we do?

We will:

- Assess the Authority's transition arrangements, including its assessment of the expected impact of the standard on the Authority's accounts; and
- Ensure that transition disclosure requirements have been included in the financial statements under IAS 8, where applicable.

Consideration of Group Boundary

During 2018/19, the Authority created a housing company, Hillingdon First Limited. Depending on the qualitative consideration of and quantitative size of the company, the finance team will need to consider the preparation of Group Accounts.

We will re-assess the Council's assessment of the need to prepare Group Accounts as a result of transactions occurring within the subsidiary within the financial year.



03

Value for Money Risks





Value for Money

Background

We are required to consider whether London Borough of Hillingdon has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2019/20 this has included consideration of the steps taken by the Authority to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. At this stage, this has resulted in us identifying one significant risk which we outline over the page



Value for Money Risks

What is the significant value for money risk?

Financial Resilience

The Council has a strong record of delivery on its savings plans in the period since the Comprehensive Spending Review in 2010.

We know that the current savings agenda is now in review with a re-focus required to deliver the next phase of the efficiency agenda. This has required the Council to draw down some £7 m of General

Reserves to support the year end outturn position in 2019/20. This is the first time that the Council has been required to do so in recent years at this level.

In addition, the Council's DSG position is an added pressure on financial resilience. There is currently uncertainty over whether the Department for Education will provide additional funds for councils in deficit positions. If the Council is required to use its general fund balance and/or other usable reserves, there will be an increased risk on its financial resilience.

What arrangements does the risk affect?

Informed decision making;
Sustainable Resource Deployment

What will we do?

We will:

- ▶ Assess the financial resilience of the Council over the Medium Term Financial Plan through consideration of budget gaps and uncertain income sources and stress test this against Usable Reserves with a view on determining where the Council sits in respect of its minimum level of Reserves should the use of Usable Reserves be required to further support the revenue budget in future years;
- ▶ Liaise with senior officers to understand the Council's financial position and forecast outturn, including any position that the Council may adopt regarding the year end position of its DSG balance.



04

Audit materiality

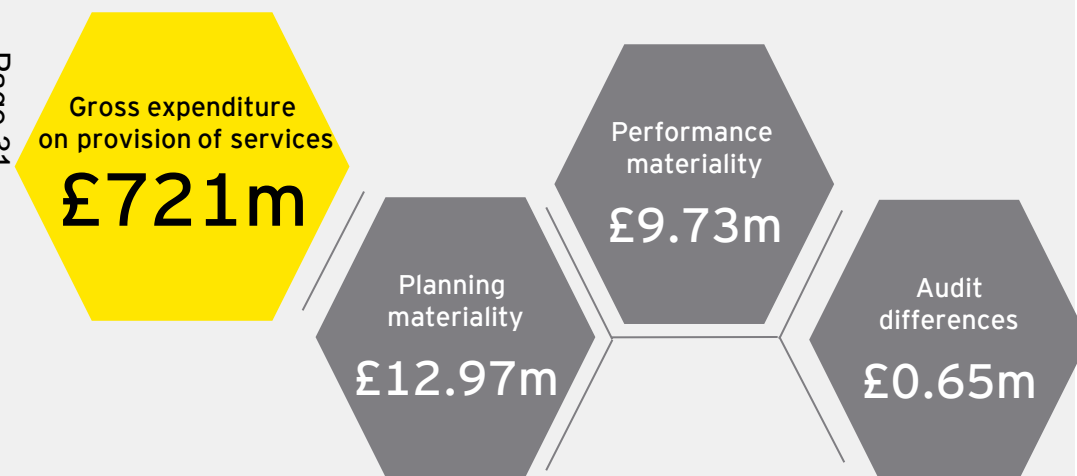


Audit materiality

Materiality

For planning purposes, we have set materiality for 2019/20 at £12.97m. This represents 1.8% of the Council's prior year gross expenditure on provision of services, consistent year on year. When setting the materiality threshold, we took into account that the Council meets the Local Audit & Accountability Act 2014 criteria for a major local audit based on its size. We have also considered its overall risk profile and public interest in comparison to other councils. We will reassess materiality throughout the audit. We have provided supplemental information about audit materiality in Appendix C.

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We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at 75% of planning materiality.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account, & collection fund financial statements that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.

Specific materiality - We may set a materiality lower than that specified for specific accounts for e.g. remuneration disclosures, related party transactions, and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this. If this is the case we will confirm this in our Audit Results Report.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO [delete if not applicable]

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will regularly meet with the Head of Business Assurance & Counter Fraud, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements. We will not rely on Internal Auditor's work and will adopt a fully substantive testing approach.



06

Audit team



Audit team

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Property Valuations Team; Wilkes Head and Eve; & Jones Lang LaSalle We will also consider any valuation aspects that require EY valuation specialists to review any material specialist assets and the underlying assumptions used.
Pensions	EY Pensions; Hymans Robertson & Barnett Waddingham

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In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Audit team

There are no changes to senior members of the audit team. Suresh Patel is the Associate Partner and Adrian Balmer is the Senior Manager.



07

Audit timeline





Audit timeline

Indicative timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20. From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	December	Audit Committee	
Walkthrough of key systems and processes	January		
Testing of routine processes and controls	February	Audit Committee	Audit Planning Report
Interim audit testing	March		
	April	Audit Committee	Interim Update Report
	May		
Year end audit	June		
Accounts testing/Audit Completion procedures	July	Audit Committee	Audit Results Report Audit Opinions and Completion Certificates
	August - October	Audit Committee	Annual Audit Letter



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08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>▶ The overall assessment of threats and safeguards;</p> <p>▶ Information about the general policies and process within EY to maintain objectivity and independence.</p> <p>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Written confirmation that all covered persons are independent;</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

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In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services. We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted. We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Suresh Patel, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 1:4. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2019 and can be found here:

https://www.ey.com/en_uk/who-we-are/transparency-report-2019



09

Appendices



Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The fee for 2019/20 reflects the year 2 of the new 5 year contract awarded by PSAA.

	Planned fee 2019/20	Final Fee 2018/19
	£	£
Scale Fee	121,096	121,096
Additional fees:		
- PPE valuations significant risk	TBC	6,995
- IFRS 9	-	1,275
- Correspondence from the public	-	1,758
- VFM significant risk	TBC	-
Total audit	121,096	131,123
Non-audit services (Housing Benefits)	28,290	27,600
Non-audit services (Housing Capital Receipts)	TBC	TBC*
Non-audit services (Teacher's Pensions)	12,500	12,000
Total other non-audit services	TBC	39,600
Total fees	TBC	170,723

All fees exclude VAT

TBC - We are still concluding the work in this area and will provide an update at a later Audit Committee once we have finalised and concluded on the final fee*

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.



If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B





Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

		Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report to be presented to the February 2020 Audit Committee
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report to be presented to the July 2020 Audit Committee





Appendix B

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report to be presented to the July 2020 Audit Committee	
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit results report to be presented to the July 2020 Audit Committee	
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit results report to be presented to the July 2020 Audit Committee	
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit results report to be presented to the July 2020 Audit Committee	





Appendix B

Required communications with the Audit Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Planning Report presented to the February 2020 Audit Committee and Audit Results Report to be presented to the July 2020 Audit Committee</p>




Appendix B

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report to be presented to the July 2020 Audit Committee	
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	Audit results report to be presented to the July 2020 Audit Committee	
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report to be presented to the July 2020 Audit Committee	

Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report to be presented to the July 2020 Audit Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report to be presented to the July 2020 Audit Committee
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report to be presented to the July 2020 Audit Committee
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report to be presented to the February 2020 Audit Committee; and Audit results report to be presented to the July 2020 Audit Committee
Certification work	Summary of certification work undertaken	Certification report to be presented to the February 2021 Audit Committee

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

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The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

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Hillingdon Pension Fund

Outline audit planning report

Year ended 31 March 2020

20 January 2020



20 January 2020



London Borough of Hillingdon
Hillingdon Civic Centre
225-226 High St,
Uxbridge UB8 1UW

Dear Audit Committee & Pension Committee Members

Outline audit planning report

We are pleased to attach our Outline Audit Plan which sets out how we intend to carry out our responsibilities as your auditor of the Hillingdon Pension Fund (the 'Fund'). Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving an effective audit for the Pension Fund, and outlines our planned audit strategy in response to them. We are currently completing our planning procedures and will update the Committee if we identify any further risks. This report is intended solely for the information and use of the Audit Committee, Pension Committee and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 3 February 2020 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated April 2018)" issued by the PSAA sets out additional requirements with which auditors must comply, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Hillingdon Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we can state to the Audit Committee, and management of Hillingdon Pension Fund, those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hillingdon Pension Fund for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.



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01

Overview of our 2019/20 audit strategy



Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

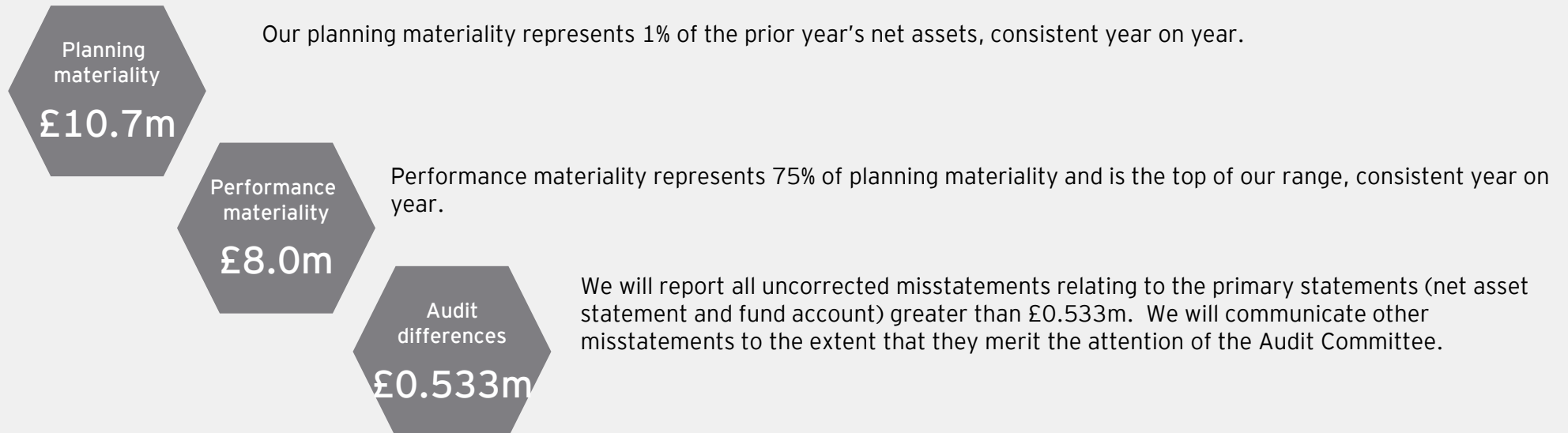
Audit risks

Risk	Risk identified	Change from PY	Details
Misstatement due to Fraud or Error - Posting of investment journals	Fraud risk	No change in risk or focus	There is a risk that, due to fraud or error, investment journals posted into the general ledger are incorrect.
Risk of Incorrect Valuation of Unquoted Investments	Significant risk	No change in risk or focus	Based on initial planning work on the Pension Fund and discussions with management we note that the Pension Fund holds a significant balance of alternative investments, including Private Equity funds. By their nature, these investments are more difficult to value because their valuation includes an element of judgement, which increases the risk of misstatement.

Overview of our 2019/20 audit strategy

In addition to the risks and areas of focus, we will also take into consideration the steps taken by the Fund to consider the impact of EU Exit on its preparation of the accounts, including any significant changes in the valuation of assets post EU Exit. We anticipate that pension funds will be carrying out scenario planning to assess the funding strategy and to manage the Fund during the transition period and thereafter.

Materiality



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Audit team

Suresh Patel remains your Engagement Partner along with Tomisin Aliu. We have made a change to the audit manager role by bringing in Larisa Midoni.



Suresh Patel
Engagement Partner

Suresh has over 25 years experience of auditing local government pension funds and is currently the auditor of 3 other funds.



Larisa Midoni
Manager

Larisa has 8 years audit experience across a number of sectors including financial services. She has 4 years post ACCA qualification experience.



Tomisin Aliu
Senior

Tomisin is a successful senior from the 2017 EY graduate scheme. This is her fourth year on the Hillingdon Pension Fund audit and her second as a senior.

Overview of our 2019/20 audit strategy

Audit scope

This Outline Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Hillingdon Pension Fund give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Pension Fund.

In addition to the above, we also perform procedures in relation to the IAS 19 report for London Borough of Hillingdon audit purposes. Our work specifically focuses on gaining assurance that the data submitted to the actuary agrees to the Pension Fund's systems.

Taking the above into account, and as articulated in this outline audit plan, our professional responsibilities require us to independently assess the risks of providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with Public Sector Audit Appointments (PSAA) allow them to vary the fee dependent on 'the auditors assessment of risk and the work needed to meet their professional responsibilities'. PSAA are aware that the setting of scale fees has not kept up to date with the changing requirements of external audit with increased focused on, for example, pension obligations and management judgements. Therefore to the extent any of these are relevant in the context of Hillingdon Pension Fund's audit we will discuss with management as to the impact on the scale fee.



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02

Audit risks



Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatement due to Fraud or Error - Posting of investment journals*

What is the risk?

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

There is a specific risk that, due to fraud or error, investment journals posted into the general ledger are incorrect, which could result in a misstatement of year-end investment value and/or investment income.

What will we do?

Our approach will focus on testing the appropriateness of manual journal entries recorded in the general ledger related to investments and ensuring that:

- ▶ The amount is consistent with the fund manager/custodian report;
- ▶ Correct authorisations have been obtained;
- ▶ The transactions are in the normal course of business or, if they are outside of the normal course, the business rationale will be requested and assessed for reasonableness.

Our response to significant risks (continued)

Risk of Incorrect Valuation of Unquoted Investments

Financial statement impact

We have assessed that the risk of incorrectly valuing investments is high for level 3 investments held by the pension fund.

Total of level 3 investments held by the Fund at 31 March 2019:
£113 million

What is the risk?

The Fund's investments include unquoted pooled investment vehicles such as private equity, and property investments.

The fund makes judgements using information provided by Investment Managers to value those investments whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error.

Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

The proportion of the fund comprising of these investment types in 2018/19 was circa 10.6%, and as these investments are more complex to value, we have identified the Fund's investments in private equity and pooled property investments as higher risk, as even a small movement in these assumptions could have an impact on the financial statements.

What will we do?

We will:

- ▶ Assess the competence of management experts;
- ▶ Review the basis of valuation for property investments and other unquoted investments, assessing the appropriateness of the valuation methods used;
- ▶ Where available, review the latest audited accounts for the relevant investment managers and ensuring there are no matters arising that highlight weaknesses in the Fund's valuation; and
- ▶ Perform analytical procedures and checking the valuation output for reasonableness against our own expectations.



03

Audit materiality



Materiality

Materiality

For planning purposes, we have set planning materiality for 2019/20 at £10.1m. This represents 1% of the Pension Fund's prior year net assets. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit Committee confirm their understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at 75% of planning materiality, consistent year on year.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the fund account and net asset statement. This was calculated as 5% of planning materiality, which is consistent year on year.

Other uncorrected misstatements, such as reclassifications and misstatements in the disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.



04

Scope of our audit



Scope of our audit

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements to the extent required by the relevant legislation and the requirements of the Code. We issue an audit report that covers:

Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland). We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error; Significant disclosures included in the financial statements; Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements.

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will meet regularly with the Head of Business Assurance and Counter-Fraud, and review internal audit plans and the results of the team's work. We will reflect any findings in our audit plan, where they raise issues that could have an impact on the financial statements.



05 Audit timeline





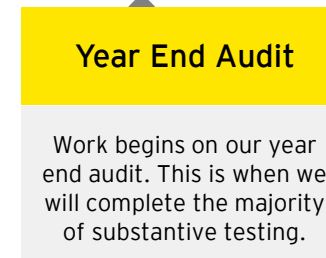
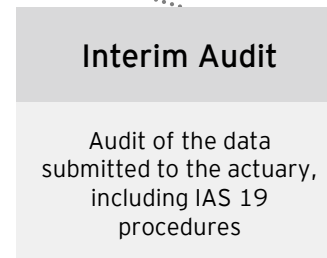
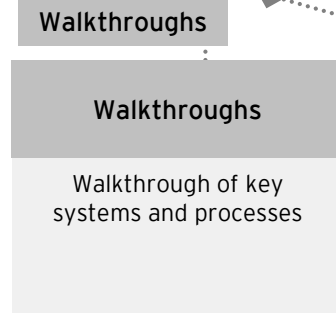
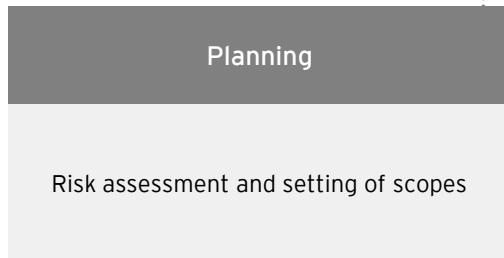
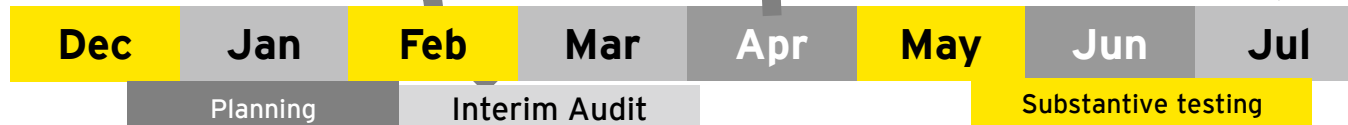
Audit timeline

Timetable of communication and deliverables

Timeline

Below is an indicative timetable showing the key stages of the audit and the deliverables to provide to you through the audit cycle in 2019/20. The timeline will be agreed with the officers at the earliest convenience.

From time to time matters may arise that require immediate communication with the Audit and Pensions Committees and we will discuss them with the Audit and Pensions Committee Chairs as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





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06

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<p>▶ Any principal threats to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>▶ The overall assessment of threats and safeguards;</p> <p>▶ Information about the general policies and process within EY to maintain objectivity and independence.</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and your audit team, we must provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to consider relationships with the Council, its directors and senior management, its affiliates, and its connected parties and any threats to integrity or objectivity, including those that could compromise independence. We are also required to disclose any safeguards that we have, and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit services provided and the fees charged for them;</p> <p>▶ Written confirmation that all team members are independent;</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

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During the audit, we must communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of any necessary safeguards, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged for the provision of services during the reporting period are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Suresh Patel, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved. None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non-audit fees to audit fees is not permitted to exceed 70%. At the time of writing, there are no non-audit services provided by us to Pension Fund.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work. There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2019 and can be found here:

https://www.ey.com/en_uk/who-we-are/transparency-report-2019



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07

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code, the financial reporting requirements set out in the Code of Practice on Local Fund Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£	£	£
Scale fee	16,170	16,170	16,170
Additional fee - Note 1	0	0	1,275
Total fees	16,170	16,170	17,435

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All fees exclude VAT

Note 1 - We agreed an additional fee for the additional work outside of the scale fee

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund; and
- ▶ The Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Pension Fund in advance.



Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.







Our Reporting to you


Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit planning report - February 2020
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Any significant difficulties encountered during the audit ▶ Any significant matters arising from the audit which were discussed with management ▶ Written representations we have requested ▶ Expected modifications to the audit report ▶ Any other matters significant to the oversight of the financial reporting process 	Audit results report - July 2020



Appendix B

Required communications with the Audit Committee (continued)




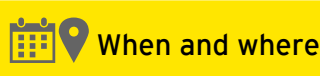
		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report - July 2020
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit results report - July 2020
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit results report - July 2020
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures, Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit results report - July 2020

Required communications with the Audit Committee (continued)

 Our Reporting to you





Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the Council and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence and related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and the Council's policy for the provision of non-audit services, and any apparent breach ▶ Details of any contingent fee arrangements for non-audit services ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit planning report - February 2020</p> <p>Audit results report - July 2020</p>

Required communications with the Audit Committee (continued)

		 Our Reporting to you
 Required communications	 What is reported?	 When and where
Public Interest Entities	<p>For the audits of financial statements of public interest entities our written communications to the Audit & Standards Committee include:</p> <ul style="list-style-type: none"> ▶ A declaration of independence ▶ The identity of each key audit partner ▶ The use of non-member firms or external specialists and confirmation of their independence ▶ The nature and frequency of communications ▶ A description of the scope and timing of the audit ▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▶ Materiality ▶ Any going concern issues identified ▶ Any significant deficiencies in internal control identified and whether they have been resolved by management ▶ Actual or suspected non-compliance with laws and regulations identified relevant to the Audit Committee ▶ The valuation methods used and any changes to these including first year audits ▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▶ The identification of any non-EY component teams used in the group audit ▶ The completeness of documentation and explanations received ▶ Any significant difficulties encountered in the course of the audit ▶ Any significant matters discussed with management ▶ Any other matters considered significant 	<p>Audit planning report - February 2020 Audit results report - July 2020</p>

Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report to be presented at the July 2020 Audit Committee.
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Asking the Audit Committee about possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that they may know about 	Audit results report to be presented at the July 2020 Audit Committee.
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report to be presented at the July 2020 Audit Committee
Representations	Written representations from management and/or those charged with governance	Audit results report to be presented at the July 2020 Audit Committee.
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report to be presented at the July 2020 Audit Committee.
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters which we will include in our auditor’s report ▶ Any circumstances identified that affect the form and content of our auditor’s report 	Audit results report to be presented at the July 2020 Audit Committee.
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report to be presented at the February 2020 Audit Committee; and Audit results report to be presented at the July 2020 Audit Committee.

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Pension Fund to express an opinion on the financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

EY | Assurance | Tax | Transactions | Advisory

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EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

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A woman with long dark hair and glasses is looking down at a tablet computer she is holding. She is wearing a light-colored blazer. The background is a server room with blue lighting and server racks. A yellow banner is overlaid on the right side of the image.

Local Government Audit Committee Briefing

Quarter 4, December 2019



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This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation and the Local Government sector as a whole.

The briefings are produced by our national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but also wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please contact your local audit team.



Government and economic news

EY Club item

Economic forecast – EY Club item

The latest EY ITEM Club forecast highlights that continued uncertainties – including those surrounding Brexit – and the weak economic global environment continue to weigh on the UK economy post the General Election. Fiscal policy will be more supportive than previously planned, with the 2020/21 spending review indicating that public spending will rise by 4.1% in real terms. This briefing considers the prospects for social care funding and the housing crisis.

The EY ITEM Club anticipates that continued Brexit uncertainty will restrict UK economic growth in 2020

The EY ITEM Club's autumn forecast predicts relatively weak UK GDP growth of just 1.0% in 2020. This reflects an assumption that the UK will leave the EU at the end of January with Boris Johnson's withdrawal agreement, in addition to the fact that uncertainty

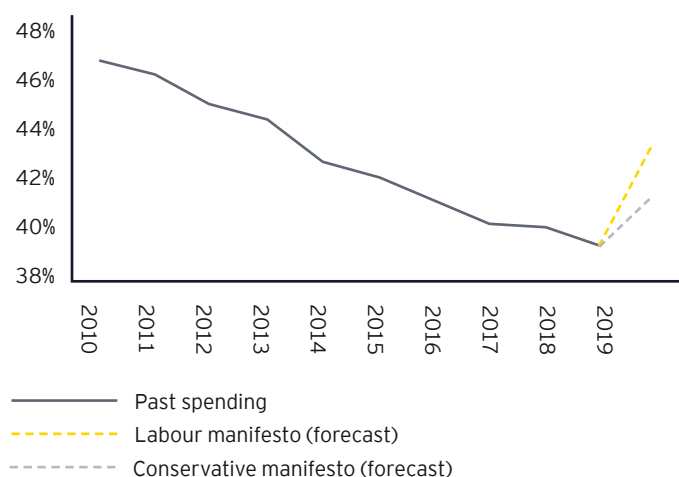
around the UK's future relationship with the EU remains. This is likely to limit any recovery in business investment in the immediate future. Geopolitical and trade pressures weighing on the global economy are also likely to cause a drag on the UK economy.

UK GDP growth for 2019 remains on track to be 1.3% in 2019, in line with past EY ITEM Club forecasts and representing a slight decline on the 1.4% figure for 2018. By comparison, 1.0% in 2020 would be a significant decline, and this is likely to have important consequences for local government.

Local authorities will likely need to continue to be innovative to deliver high quality social care

Chancellor Sajid Javid has pledged public spending increases of 4.1% in real terms in the 2020/21 spending review – the fastest increase in 15 years – whilst it is anticipated that the Budget for 2020/21 will contain further fiscal loosening measures. Austerity to the extent of the past decade appears to be at an end.

Figure 1: UK public sector spending (% of GDP)



Sources: Office for Budget Responsibility; BBC

Despite this, the Conservative manifesto pledges maintaining the £1bn of grant funding announced in the last spending review for the duration of the next parliament as well as £500mn of funding for potholes (in contrast with an extra £13bn proposed by the Labour manifesto).

The Conservative manifesto is light on detail on social care reform that has been anticipated in the continuously delayed green paper. On top of the maintenance of the £1bn of grant funding, they refer to the need for more staff, better infrastructure and a new entitlement to an extra week of leave for people undertaking care on an unpaid basis. But this falls short of a long-term solution, which the Conservatives have stated needs to come from cross-party consensus. It also does not indicate how the manifesto commitment that 'no one needing care has to sell their home to pay for it' will be achieved.¹

Until more clarity emerges in this regard, local authorities may continue to be financially and operationally squeezed in their delivery of social care. This is compounded by the fact that there were 136,000 job vacancies in the health and social work sector (17% of all UK vacancies),² whilst labour markets remain tight, with unemployment of 3.9% just one percentage point above

the joint-lowest level since 1974. Despite this, continued funding constraints will mean that badly needed wage growth in the sector is unlikely to materialise to a great extent in the next year, even given recent strong economy-wide wage growth. Furthermore, UK wide productivity remains low, with Q2 2019 being the fourth consecutive quarter without growth.

The housing crisis remains a major pressure on local government

The latest RICS survey indicated that average housing stock levels on estate agents' books in September were close to the lowest level in the survey's history. Housing market activity is also forecast to remain below the 2016 peak until at least 2023. The Government's initiatives to boost house building will take time to have a significant effect, so are unlikely to markedly influence housing availability in the short term at least. In addition, the proportion of new houses that will be affordable must also be seen as a significant measure as to the effectiveness of central government policy dealing with the housing crisis.

Local authorities therefore continue to take up the mantle in combating the crisis, with 78% of councils having a housing or property company as of March 2019. Councils are finding different ways of delivering, developing their own land in some cases and making acquisitions in others, working with different types of partners and providers, and applying focus to affordable housing and various specific-need groups (such as the elderly).³

Certainty elusive as Brexit continues to dominate the political agenda

The Conservatives' primary election campaign promise to 'Get Brexit Done' only represents the beginning of a long process of trade deal negotiations, both with the EU and other third partners. The Government has stated its intention to negotiate a deal with the EU next year, not extending the implementation period beyond 2020. That said, the delays to the withdrawal agreement process suggest that it is difficult to guarantee this. Furthermore, the Government plans to agree new free trade agreements to cover 80% of UK trade over the next three years.¹ Economic and political uncertainty are therefore likely to remain prominent during this period, if not beyond.

¹ The Telegraph, 'Conservative Party manifesto 2019', 10 December 2019, [online]. Available at: <https://www.telegraph.co.uk/politics/2019/12/10/conservative-manifesto-2019-nhs-election/>

² Office for National Statistics, 'Vacancies and jobs in the UK', 12 November 2019, [online]. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/november2019>

³ Inside Housing, 'Councils are finding their building confidence', 15 March 2019, [online]. Available at: <https://www.insidehousing.co.uk/sponsored/sponsored/councils-are-finding-their-building-confidence?>

Central government is therefore likely to remain focused on international trade and relations over the next few years. It will become increasingly important for local government to continue to play a leading role in society, delivering vital services for local residents. There is little in the EY ITEM Club's forecasts to suggest that the economy will provide much support in meeting these challenges.

The need for innovation to improve the social care system's capacity

The lead up to the UK election saw all major political parties making proposed commitments to expand social care. The newly elected Conservative government has stated that the social care system needs to 'give every person the dignity and security they deserve'. Aside from a commitment to maintain the extra £1bn of grant funding, there has been little further detail about what social care reform may happen in the term of the Parliament.

This financial commitment contributes, albeit probably not sufficiently, to the proposed funding gap. However, funding in the social care system is not the only shortfall; recent research by the Nuffield Trust has suggested there are 165,000 over 65s with unmet care needs and providing these with just two hours of care a day would require 90,000 new home care workers. This doesn't consider any other forms of social care, such as adults with special or complex needs. Therefore, the shortfall of 90,000 care workers is likely to be a prudent figure.

Successful expansion of the social care system will be heavily influenced by macroeconomic conditions.

Any expansion of the social care system in the UK will need careful consideration of the existing conditions in the labour market. The current unemployment rate of 3.9% stands at near record low levels. However, despite nominal wage growth standing at its highest rate since 2008, real wage growth remains near zero. These conditions will make it challenging to expand the workforce of the social care system without significantly increasing spending or looking for alternative means of delivery.

It is possible to establish an economically sustainable social care system.

There are examples of successful social care system transformations from across the globe that provide insightful lessons for potential reform in the UK's social care system.

In 2013, the Australian Government introduced a universal social care system referred to as the National Disability Insurance Scheme (NDIS). The NDIS entitles people with a 'permanent and significant' disability (under the age of 65), to full funding for 'any reasonable and necessary' support needs relating to their disability (subject to certain restrictions). Funding is allocated to the individual, and the individual or their guardian chooses which providers supply the funded goods and services (subject to other restrictions). The scheme is entirely publicly funded.

Research commissioned by the Australian Government in 2011, found that by approximately 2025 the cost of maintaining the status quo in relation to the care of people with a disability would be greater than the cost of an NDIS. The status quo heavily relied on a fragmented funding system of grants that offered little long-term security for those with disabilities. A broken system was deemed to be constraining those with special needs' ability and the ability of their carers to participate in Australian society. Other downstream costs of the status quo included those seen in the criminal justice system, health system, homelessness and costs relating to social isolation.

Expanding social care requires innovation and careful consideration of labour supply and community needs.

There was a clear need to overhaul the social care system in Australia, however it meant the disability sector in Australia would need to double its workforce to meet the needs of the NDIS. Consultations on the NDIS to date have highlighted several key issues that would be of important consideration in the proposed expansion of social care in the UK:

- ▶ **Vulnerable clients:** the communities that some providers serve may have complex and more pressing needs, including isolation, complex disability support and challenges in self-determining their needs. These clients require more highly qualified staff to service their needs.

- ▶ **Higher operating costs:** low client numbers (or difficulty in finding connection with clients that are in a region), and/or highly dispersed clients result in high per-client costs under existing staff utilisation.
- ▶ **Workforce:** challenges in recruiting and retaining qualified workers as well as providing learning and development opportunities.
- ▶ **Temporary supply gaps during transition:** temporary supply gaps during transition to full implementation of the scheme, where some supports (such as certain specialist supports and Allied Health services) take time to reach levels required to meet demand.
- ▶ **Geographic isolation:** physical distance and travel time results in high costs for service delivery for isolated or highly dispersed communities.

Many of these challenges would likely impact any proposed expansion of the social care workforce in the UK too. Focus should therefore be applied to mitigating these during the formation of any associated policy. However, what else should be considered in the need to expand social care?

The need to improve capacity

The call to expand the social care system pertains to the current and growing challenge of lack of capacity in the system. Whilst expanding the workforce is one means to try and tackle this, so is improving productivity. Where significant workforce challenges exist, then focusing on technologically enabled productivity gains is likely to be crucial.

There are a range of opportunities through which technology has the potential to improve the productivity of the social care system:

- ▶ **Managing front-door demand:** predictive analytics can now be used to identify risk and vulnerable groups to proactively target interventions before demand materialises.
- ▶ **Making existing service delivery for staff more efficient:** Robotic Process Automation (RPA) and Artificial Intelligence (AI) applications provide improved productive capacity and flexibility for staff through streamlined processes and automated administration tasks, allowing staff to focus on supporting user needs.
- ▶ **Technology-enabled care:** assistive technology provides a vehicle to personalise and tailor support, reducing intrusion whilst providing a platform for connectivity and care, such as virtual reality empathy training, real time care monitoring and work flowed predictive analytics.
- ▶ **Procurement and commissioning:** data driven decision making through predictive analytics, digital care planning and eBrokerage now provides an effective platform for evidence-based outcome-focused commissioning.

It is vital that any proposed expansion of the social care system doesn't purely focus on increasing the number of social care workers. The system needs fundamental transformations in its digital infrastructure and it is through the productivity gains that can be yielded from those, that the system can best overcome its capacity challenges.

The EY ITEM Club forecast for the UK economy, autumn 2019

% changes on previous year

	GDP	Domestic demand	Consumer spending	Fixed investment	Exports	Imports
2017	1.9	1.2	2.2	1.6	6.1	3.5
2018	1.4	1.4	1.6	-0.1	-0.9	0.7
2019 (forecast)	1.3	2.3	1.2	-0.3	-0.1	4.3
2020 (forecast)	1	0.8	1.4	-0.4	1.1	0.3
2021 (forecast)	1.5	1.8	1.8	2.7	2.5	3.1
2022 (forecast)	1.7	2	1.9	2.3	3.2	3.8
2023 (forecast)	1.8	2	2	2.6	3.5	3.7

Future Funding for Vital Services

Research conducted by the Institute for Fiscal Studies (IFS) has predicted that council tax revenues will significantly fall short of the funding required to provide key services, including social care. If council tax revenues increase at their current rate in line with inflation at 2% then this would result in a shortfall of £4bn by 2024/25, rising to £18bn by the mid-2030s. An increase in council tax by 4% per year would still result in a shortfall of £1.6bn by 2024/25 and £8.7bn by 2034/35. There have been calls within the local authority sector to significantly reform and address the issue of long-term sustainable funding for social care.

The research has also concluded that councils have cut other services by up to 40% since 2010 in order to protect social care spending. Local authority budgets are under significant pressure due to a decade of funding cuts from central government and increased cost pressures from increased demand for services. The IFS has found that budgets of local authorities are increasingly focused on fulfilling statutory duties and focusing spending on those that need it the most, as opposed to providing equitable services to all. This has resulted in significant cuts to a range of services previously provided by local authorities that are not required under statute. For example, per-person spending on culture and recreation is 50% lower in 2019/20 compared to 2009/10.

Similar analysis conducted by the Trade Union Congress has found that funding for key local services related to social care, waste management and transport have fallen by, on average, 16% since 2010. There were significant regional variations with the North East and North West regions showing a fall of 20% compared to 2010 levels, whilst some metropolitan boroughs in London had a 30% decrease.

Local authorities have become increasingly more reliant on council tax and business rates income. Excluding educational spend, half of all spending is funded from council tax whilst 30% of spend is funded from business rates. With reform of business rate retention and Fair Funding reviews on the horizon, it is likely that councils will become even more reliant on council tax and business rate income. Consequently, authorities with a smaller tax base may find that their sources of revenue fall behind neighbouring authorities with a larger tax base.

Public Works Loan Board (PWLB) Interest Rate Increase

On 9 October 2019 HM Treasury announced a 1% interest rate increase for all new PWLB loans with immediate effect. The Secretary of State for Housing, Communities and Local Government noted that this was a necessary step to control the increase and dependency on PWLB borrowing. Total PWLB borrowing increased by 72% from 2017/18 to 2018/19 to £9.1bn new loans across all local authorities before this interest rate hike.

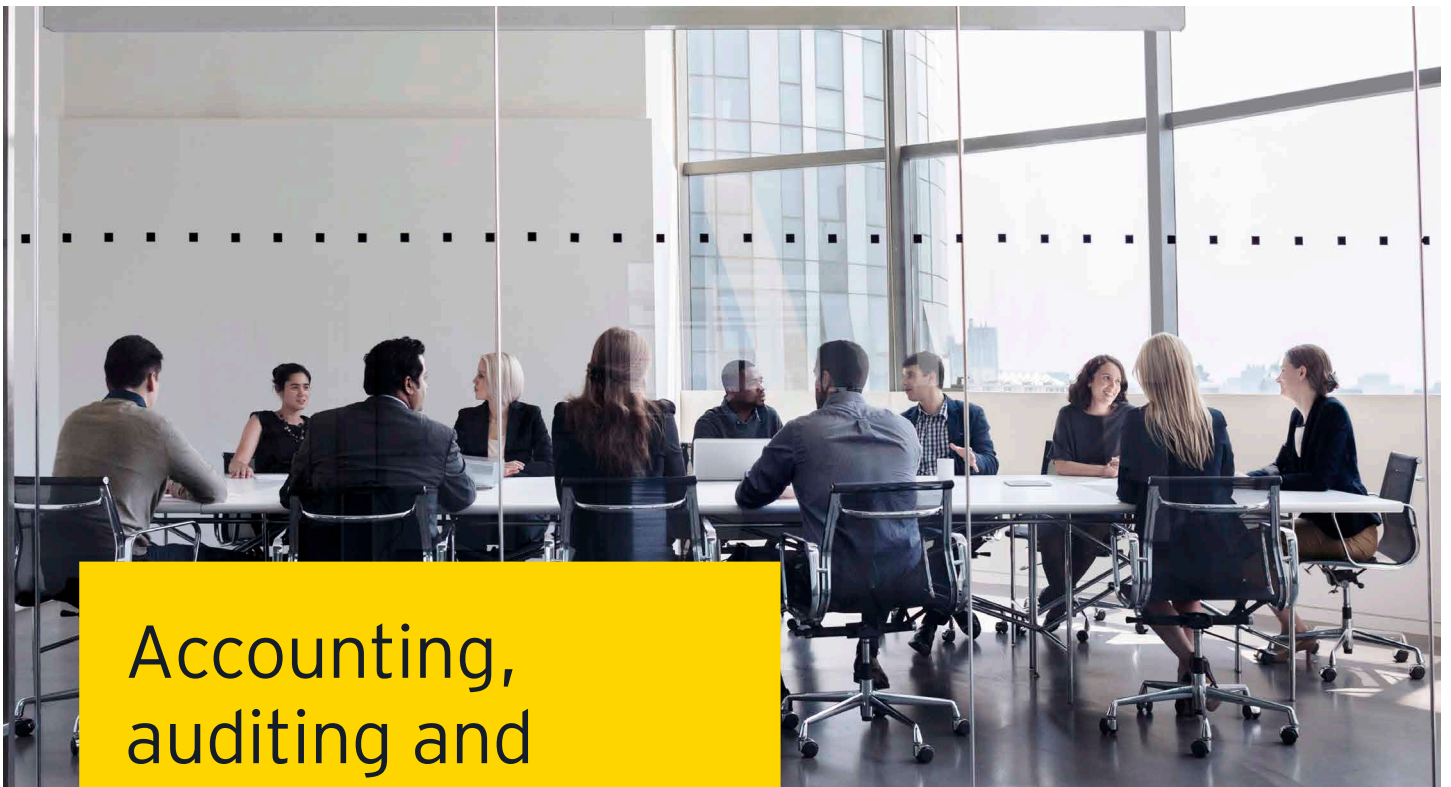
A spokesman from the Local Government Association (LGA) has commented that this PWLB rate increase could cost councils an extra £70mn a year. This may put at risk many vital capital schemes, including the construction of much needed council houses, which may now be delayed or cancelled due to unaffordability. The London Councils umbrella group have also indicated that the interest rate increase is likely to have a 'severe impact' on housing and regeneration schemes.

The credit rating agency Moody's has commented that the PWLB interest rate increase is overall 'credit negative' for the sector as the cost of capital for local authorities on new borrowing will increase in the short term. However, in the long term, the increase in interest rates should reduce the overall level of debt accumulated in the sector.

Moody's have also predicted that the rate hike will deter some councils from borrowing to invest in commercial property schemes with marginal returns. This comes as the chief executive of the Chartered Institute of Public Finance and Accountancy (CIPFA), Rob Whiteman, has commented that central government has concerns on the types of commercial property investments entered into by local authorities. Some of which are controversial due to the scale of borrowing and the increase in exposure to economic volatility for local authorities. He warned that 'the PWLB [interest rate] hike was a very blunt instrument' and does not help the sector as whole. However, if controversial commercial investments continue within the sector then it is likely that central government will impose greater regulation upon local authorities, or even sanctions if CIPFA's Prudential Code is not adhered to.

The initial impact of the interest rate increase on PWLB loan borrowing has suggested that the value of new loans drawn down in October 2019 has decreased by 71% compared to September 2019. In response to interest rate hike councillors and mayors from multiple London Boroughs have written to the Chancellor of the Exchequer calling on him to reverse the increase.





Accounting, auditing and governance

Going Concern

In response to recent well-publicised corporate failures, the Financial Reporting Council (FRC), the regulator of external auditors, has issued a revised standard on going concern, International Standard on Auditing ('ISA') (UK) 570. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019 (e.g., the 2020/21 accounts), with early adoption possible.

The uncertain economic environment, risks arising from Brexit and weakness in the retail sector due to falling consumer spending mean increasing risks around going concern in the corporate sector. These risks are also prevalent, to a lesser extent, in local government. Public interest expectations around the work of auditors on going concern, and the FRC's expectations on how we robustly challenge management, have also never been higher.

The revised standard increases the work auditors are required to perform when assessing whether an entity is a going concern. As a starting point, the expectation of the regulator is that there are going concern uncertainties in every business which must be identified by the auditor, before a robust consideration of management's assessment is carried out. This requires auditors to perform:

- ▶ An enhanced risk assessment to inform the auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an

evaluation of the supporting evidence obtained which includes consideration of the risk of management bias:

- ▶ If we identify events or conditions that management did not, further procedures are required including consideration of control weaknesses and risk of fraud.
- ▶ The testing of management's method of assessment, assumptions, the relevance and reliability of data, management's future actions and events since management's assessment are more explicitly described in the new standard, although many of the required steps will reflect current best practice.
- ▶ The evaluation of evidence when we draw our conclusions on going concern includes a stand back requirement to consider all the evidence obtained (whether corroborative or contradictory) and consideration of management bias even if all judgements and assumptions are individually reasonable.
- ▶ Financial statement disclosures around going concern now need to be considered for 'appropriateness' not 'adequacy'.
- ▶ Extended requirements to report to regulators where we have concerns about going concern.

Your local audit team will provide further details later in 2020 on what these changes might mean for the work management must perform on going concern and the expectations of the audit team.

Public Sector Audit Consultations

There are two recent consultations which may change the shape of public sector financial reporting and auditing. These are:

- ▶ Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England (Call for Views) led by Sir Tony Redmond.
- ▶ Local audit in England – Code of Audit Practice – Draft Code Consultation led by the National Audit Office (NAO Code).

We believe reforms should be guided by the following principles:

- ▶ Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit
- ▶ The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity and risks facing public sector bodies.
- ▶ There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- ▶ To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole (e.g., public bodies governance, controls, reporting and auditing). This should include changes to how local auditors conduct and report on local public bodies' Value for Money arrangements.

We also believe that increased transparency of reporting to local taxpayers and other users of accounts is needed to improve the effectiveness of local public bodies' corporate governance, financial position, risk appetite and rationale for significant decisions.

The Call for Views and changes to the NAO Code comes at a time of significant scrutiny of the UK audit market and profession. We believe it is crucial that the outcomes from the Call for Views, and the finalisation of the NAO Code, is closely aligned with the outcome of these various reviews.

We have responded to both consultations and are committed to work with Sir Tony Redmond, the UK government and the NAO in support of improving the transparency and sustainability of public sector financial reporting and external audit. In our next briefing, we will share the key messages in our responses to both consultations. We encourage Audit Committees to be aware of and contribute its views to these important consultations and developments and your Engagement Lead will be happy to discuss these matters with you.

CIPFA Publications: Financial Management and Commercial Investments

On 11 October 2019 CIPFA launched its first financial management code in 15 years. The financial management Code (FM Code) is designed to help officers navigate the increasing complex issues of public sector finance, including financial sustainability. The FM Code requires all local authorities, including police, fire and other authorities, to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability, introduces a framework of assurance and sets explicit standards of financial management. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and the leadership team. Ultimately the FM code aims at improving financial decision making.

The FM Code is built on elements of other CIPFA codes and applicability will be familiar to users of publications such as The Prudential Code for Capital Finance, Treasury Management in the Public Sector Code of Practice and Code of Practice on Local Authority Accounting in the United Kingdom.

CIPFA chief executive, Rob Whiteman, said that 'CIPFA's ambition was to embed good financial management as an organisational responsibility ... and move towards a sense of collective responsibility when it comes to finance.' The National Audit Office Auditor General, Gareth Davies, welcomed the new financial management code as it will help local authorities to improve their standards of financial management and cope with the financial challenges they are facing.

CIPFA has also issued new guidance for local authorities on what is expected from them when commercial property investments are made. The institute has warned that authorities must not borrow more than, or in advance of, their needs purely in the interest of profit. The cornerstone of this new guidance, published on 15 November 2019, is that under the prudential framework local authorities should not put public money and services at risk to the extent that an investment bank or commercial investor may legitimately do with their shareholders' funds.



Other news

Green Revolution

Although 230 English councils have declared climate emergencies over the past year, there has been a slow rollout of industrial strategies and policies to implement clean growth development opportunities. Climate action groups are calling on a proportion of the UK Share Prosperity Fund to be ringfenced for climate projects that enable clean growth. This would assist the Government to achieve its net zero carbon target by 2050 through implementation of local schemes. The Green Alliance's head of policy has called on local policy makers to put clean growth at the heart of local industry strategies to attract industries of the future and to enable local resilience in a world affected by climate change.

The Friends of the Earth group have analysed and ranked each local authority based on their green credentials. The group is calling on all local authorities to do more to combat climate change, including improving the energy efficiency standards of new build homes. A poll by Unison and ComRes suggests that if councils were to receive increased funding, 39% of the public would like additional money to be spent on prioritising refuse and recycling.

The LGA's environmental spokesperson has suggested that a joint national task force led by councils should be set up to drive

initiatives to make councils more climate friendly. The LGA has also indicated that national climate change targets are unlikely to be achieved unless councils are given long term funding and devolved powers to combat climate change. The chair of the County Council Network has called on the government to engage with local authorities to provide genuine devolution and sustainable funding framework.

EY audit quality and transparency reports

This year, for the first time, EY is publishing a UK Audit Quality Report alongside our UK Transparency Report and both reports are now available on ey.com.

As our profession continues to face scrutiny, we believe it is vital that we are as open and transparent as possible. Together these reports aim to achieve this by setting out how we're addressing our public interest responsibilities and delivering high quality audits.

Our Audit Quality Report sets out the actions we've taken over the last five years to improve audit quality and, importantly, those that we will focus on in the future. We hope that by sharing the details of our long-term and future investment plans with you, this will instil confidence in our commitment to quality.

Audit Quality

We understand our role in society is to serve the public interest. Delivering consistently high quality audits is how we play our part in restoring and sustaining confidence. A commitment to audit quality starts at the top of the organisation. EY leaders set a clear tone from the top by promoting, maintaining and demonstrating a culture based on a commitment to quality, integrity, and collaboration.

It is also critical that we create an environment where our teams are supported to deliver high-quality audits. We have established the Audit Quality Board ('AQB') to take a lead in setting this tone and we hold regular events and issue communications to reinforce a priority on audit quality.

The importance of setting the right expectations for all our audit teams is why 'tone at the top' is the first pillar of our Sustainable Audit Quality ('SAQ') programme.

We have already made significant investments to improve audit quality over the last five years through our SAQ programme. We began this programme in 2014 when we set up the UK AQB and our Audit Quality Support Team and launched annual Audit Quality Summits for our partners and senior staff. Since then, our approach to partner and staff remuneration has been focused on ensuring audit quality is reinforced as a critical factor in determining pay awards.

Our investment in audit quality is now £25mn a year higher than in 2014; however, we recognise that there remains more to do. We will continue to invest to meet the expectations of all our stakeholders and society as a whole.

Exceptional Talent

The competition for talented people with the right mindset to deliver high-quality audits has never been higher. As a result, the profession continues to face challenges with recruiting and retaining the right number of people with the right skills. This has been exacerbated by the increased demands and pressures that the profession is facing in the current environment. We are committed to attracting, developing, inspiring and retaining outstanding audit professionals and promoting an inclusive culture for them to be able to deliver to the best of their abilities. We have been recruiting, and continue to recruit, across our business and aim to deliver an exceptional experience for our people throughout the recruitment process their career.

Accountability

Society as a whole and our regulators rightly expect us to be accountable for the work we perform. Without this accountability being recognised and responded to at all levels in the audit process, we will not achieve the improvements we need to make in delivering consistently high quality audits. We believe that, as auditors, we are accountable not just to ourselves, but to our teams, our organisation, our stakeholders and the public interest. We have embedded a culture of accountability at all levels of the audit process, whilst also providing the support necessary for our people to take responsibility for their work. We are further reinforcing the importance of accountability through the SAQ programme, our quality ratings and our partners' performance evaluations. Monitoring our audit performance and the effectiveness of our actions to improve audit quality is a key part of our system of quality control and the activities of the AQB, ensuring that we hold ourselves fully accountable for the quality of work we do.

Audit Technology and Digital

The extent to which the entities we audit create and use data has increased significantly. This generates a unique opportunity to drive greater assurance and hence improve audit quality through the appropriate analysis of this data. During the past five years, we have been undergoing an unprecedented transformation in our capability to leverage and interrogate the data created by the entities we audit and in improving our own technology supporting the audit process. This allows us to increase audit quality not only through improved data analysis, but also through using technology to improve project management, timely review and resolution of issues identified in our audits.

To take advantage of the opportunities offered by innovative technologies in every EY audit, we have transformed EY's Global Audit Methodology (GAM) to put data at the heart of the audit. Known as EY Digital GAM, this new approach has been piloted in 2019 and will be phased in globally from 2020. Digital GAM is powered by our digital audit technology, using this to embed data analysis and automated techniques in all phases of the audit. It also simplifies certain tasks and improves linkage from one audit procedure to another.

This updated methodology will further enhance audit quality through:

- ▶ The standardising or automating of routine audit tasks, enabling teams to focus on identified anomalies or higher risk judgemental aspects of the audit; and
- ▶ Providing greater clarity on the risks inherent in an organisation, driving a more focused audit approach.

Simplification and innovation

A natural response to regulatory inspection findings and the pressures we face to deliver the highest quality audits is to do more and more work; however, if this is not targeted in the right areas or effectively performed, it can actually be counter-productive. The quality of our audits is improved where we can also deliver simplification and innovation in the way we perform and document our work. In a world of ever-increasing complexity and data availability, we have innovated our audit technologies and approach – not only to stay ahead of these changes, but also to use them to our advantage and improve audit quality. Where possible, we have also used this opportunity to simplify our work, giving our audit teams greater clarity on key risks and increased time to focus on these.

Enablement and Quality Support

The complexity of the organisations we audit continues to increase, making risk assessment and key audit judgements ever more difficult. At the same time, the expectations of all our stakeholders for us to perform high-quality audits and provide trust and confidence also increases. We have to ensure that we have the right support for our audit teams to help them address complexity, challenge management appropriately and document our judgements clearly. We have always provided, and continue to provide, technical accounting and risk management support

to our audit teams as required. Since 2014 we have significantly increased the level of support provided to individual audit teams, particularly those on our most challenging and complex audits. This includes coaching programmes and coaching kits, as well as other processes designed to improve audit quality. Importantly, we also routinely monitor audit quality indicators and have in place processes to learn quickly from both positive and negative quality outcomes.

There is no doubt we are in challenging times and there is uncertainty ahead. Our main focus will continue to be on delivering high-quality audits and we have every confidence that the steps we have taken, and those we plan to make, to deliver audit quality are the right ones. We will continue to support our audit teams through the investment in technology, processes and, most of all, in our people. Our purpose must be to deliver audits of the highest quality and provide confidence to the capital markets and other stakeholders.

Our Transparency Report, meanwhile, sets out what we do as a firm, how we're structured and governed, how we manage risk and comply with regulation, and how we performed in FY19. During the year we established our Audit Risk Committee, to expand our risk-scanning processes on audits. The goal is to ensure that we appropriately identify high risk clients and sectors and tailor our approach to them. Looking ahead to 2020, we have a number of priority areas which include additional investment in people, increasing the scope of our Audit Quality Support Team, championing new ideas and innovation and enhancing our focus on promoting the desired culture and behaviours for audit quality.

We hope these reports offer a useful means to assess our policies and processes for maintaining independence and complying with relevant standards and regulations.

Key Questions for the Audit Committee

Future Funding for Vital Services

What is the largest cost pressure or funding gap for your authority? What actions are your authority taking to address future budget gaps in the medium to long term?

To what extent is your authority reliant on its tax based to fund services?

Public Works Loan Board (PWLB) Interest Rate Increase

What impact has the PWLB interest rate increase had on your authority? Has your authority reviewed the continuing financial viability of its commercial investments?

How does your authority intent to achieve its capital strategy objectives considering the PWLB interest rate increase?

Going Concern

Have you discussed with your auditors what impact the revised standard on going concern will have on your consideration of going concern and the changes to your audit?

Public Sector Audit Consultations

Did your authority participate in the public sector audit consultations?

What reforms do you believe are key to the future sustainability of public sector financial reporting and auditing?

CIPFA Publications: Financial Management and Commercial Investments

How has your authority adopted and implemented CIPFA's new Financial Management code?

What impact does CIPFA's guidance on commercial property investments have for your authority? Do the authority's commercial activities place the public's money at risk?

Green Revolution

How does your authority's local industrial strategy enable clean growth?

What action is your authority taking to combat climate change? How does your authority plan to achieve the net zero carbon target by 2050?

EY audit quality and transparency reports

Have you discussed with your auditors the benefits of a digital audit?

Find out more

Future Funding for Vital Services

<https://www.publicfinance.co.uk/news/2019/11/major-gap-between-council-revenue-and-funding-needed-says-ifs>

<https://www.publicfinance.co.uk/2019/11/ifs-councils-sacrificing-other-services-protect-social-care>

Public Works Loan Board (PWLB) Interest Rate Increase

<https://www.publicfinance.co.uk/news/2019/10/increased-pwlb-interest-rate-rise-puts-capital-projects-jeopardy>

<https://www.publicfinance.co.uk/news/2019/11/whiteman-councils-risky-commercial-deals-could-prompt-increased-regulation>

Going Concern

<https://www.iaasb.org/publications-resources/international-standard-auditing-isa-570-revised-going-concern>

Public Sector Audit Consultations

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>

<https://www.gov.uk/government/news/call-for-views-for-independent-review-into-local-authority-audit>

CIPFA Publications: Financial Management and Commercial Investments

<https://www.cipfa.org/policy-and-guidance/publications/f/financial-management-code>

<https://www.publicfinance.co.uk/news/2019/10/cipfa-unveils-financial-management-code>

<https://www.cipfa.org/policy-and-guidance/publications/p/prudential-property-investment>

Green Revolution

<https://www.publicfinance.co.uk/news/2019/10/councils-need-funding-and-powers-create-greener-local-strategies>

<https://www.publicfinance.co.uk/news/2019/10/local-authorities-need-be-more-environmentally-friendly>

EY Reports on audit quality and transparency

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-audit-quality-report.pdf

[https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/\\$FILE/ey-uk-2019-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf)

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AUDIT COMMITTEE - Internal Audit Progress Report for 2019/20 Quarter 3 (including the Quarter 4 IA Plan)

Committee name	Audit Committee
Officer reporting	Sarah Hydrie, Head of Internal Audit & Risk Assurance
Papers with report	Internal Audit Progress Report for 2019/20 Quarter 3 & Internal Audit Plan for Quarter 4
Ward	All

HEADLINES

The attached report presents the Audit Committee with summary information on all Internal Audit (IA) work covered in 2019/20 Quarter 3 and assurance in this respect. It also provides an opportunity for the Head of Internal Audit & Risk Assurance to highlight to the Audit Committee any significant issues that they need be aware of that have arisen since the last IA progress report. Further, it enables the Audit Committee to hold the Head of Internal Audit & Risk Assurance to account on delivery of the IA Plan and facilitates in holding management to account for managing risk and control weaknesses identified during the course of IA activity. Appended to this report is the IA Plan for Quarter 4 which has been produced in consultation with senior managers and outlines the planned programme of IA work to be carried out within the next quarter.

RECOMMENDATIONS:

That the Audit Committee:

1. **Notes the IA Progress Report for 2019/20 Quarter 3 and consider the Quarter 4 IA Plan and, subject to any further minor amendments, approve it; and**
2. **Ensures that the coverage, performance and results of Business Assurance IA activity in this quarter are considered and any additional assurance requirements are communicated to the Head of Internal Audit & Risk Assurance.**

SUPPORTING INFORMATION

IA provides an independent appraisal and consultancy service that underpins good governance, which is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon.

BACKGROUND PAPERS

The Business Assurance service holds various background research documents in relation to the Quarter 4 IA Plan.

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BUSINESS ASSURANCE

Internal Audit Progress Report to Audit Committee: 2019/20 Quarter 3 (including the Quarter 4 Internal Audit Plan)

2nd January 2020



Contents

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1. Introduction

1.1 The Role of Internal Audit

- 1.1.1 Internal Audit (IA) provides an independent assurance and consultancy service that underpins good governance, essential in helping the Council achieve its corporate objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 2015 that the Authority undertakes an effective IA to evaluate the effectiveness of its risk management, internal control and corporate governance processes, taking into account the UK Public Sector IA Standards or guidance.
- 1.1.2 The UK Public Sector IA Standards (PSIAS) define the nature of IA and set out basic principles for carrying out IA within the public sector. The PSIAS help the Council to establish a framework for providing IA services, which adds value to the organisation, leading to improved organisational processes and operations.

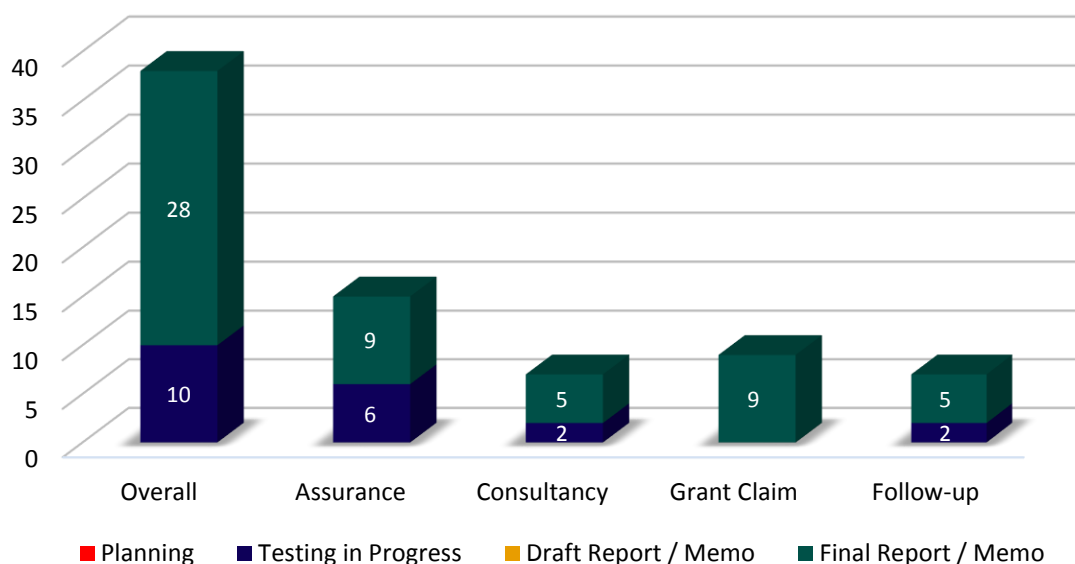
1.2 The Purpose of the Internal Audit Progress Report to Audit Committee

- 1.2.1 This Quarter 3 progress report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information on IA work for the period 1st October to 31st December 2019. In addition, it provides an opportunity for the Council's Head of Internal Audit & Risk Assurance (HIA), to highlight any significant issues which have arisen from IA work in Quarter 3. It also highlights to CMT, the Audit Committee and other IA stakeholders the revisions to the Quarter 3 IA plan since its approval (refer to **Appendix B**).
- 1.2.2 A key feature of the Quarter 3 IA progress report is the inclusion of the Quarter 4 IA plan (refer to **Appendix C**). This has been produced in consultation with senior managers over the last few weeks and sets out the planned programme of IA coverage due to commence in the Quarter 4 period (1st January to 31st March 2020).

2. Executive Summary

- 2.1 Since the last IA Progress Report to CMT and the Audit Committee dated 30th September 2019, **5 assurance reviews** (including **2 follow-ups**) have concluded, **2 grant claims** have been certified and **3 consultancy reviews** have been finalised. Progress has been steady this quarter, with three new staff members settling into the IA team, everyone is working diligently to complete the IA Plan to the required high standards. The team are therefore on track to complete this year's programme of IA work for 2019/20, as depicted below:

Chart 1 - 2019/20 IA Work Undertaken To Date



- 2.2 Our work on the 2019/20 Quarter 3 IA plan commenced on 1st October 2019 and work is now underway on all Quarter 3 planned work (refer to **Appendix A**). Within the context of inducting three new members of IA staff, positive progress has been made this quarter. Key assurance reviews finalised in this period include **Cyber Incident Management** which received **LIMITED** assurance, **Food Health & Safety – Site Inspections** and **Absence Management** both of which received **REASONABLE** assurance opinions respectively over the management of key risks.
- 2.3 These results are in line with our expectations and the risk-based approach which we deploy. When deciding to undertake risk-based internal auditing (RBIA), it is important to understand the level of risk maturity within the organisation, and tailor the IA strategy to mirror and support the stages of the organisation. Specifically, IA resource has been targeted in the areas of the highest risk as part of an efficient IA assurance programme. **Positive action has been proposed by management** to address all of the **HIGH** and **MEDIUM** risk recommendations raised within each respective review and these recommendations will be followed-up by IA in due course.
- 2.4 Within this quarter, IA has also undertaken a significant amount of follow-up work. As well as the individual reviews conducted of prior audits obtaining a **LIMITED** or **NO** assurance opinion, we have performed an extensive review of previously raised IA recommendations. This involves independently verifying recommendations that have been marked as ‘Implemented’ by management/risk owners on TeamCentral.
- 2.5 In terms of the Quarter 3 IA operational plan, there have been 2 amendments, 2 deferrals and 1 addition to the plan (refer to **Appendix B**). Further details of all IA work carried out in this period are summarised at section 3 of this report below.

3. Analysis of Internal Audit Activity

3.1 Assurance Work in Quarter 3

- 3.1.1 During this quarter, **5** 2019/20 IA assurance reviews (including **2** follow-up reviews) have been completed to final report stage, with a further **6** at advanced testing stage.
- 3.1.2 All IA assurance reviews carried out in the financial year to date are individually listed at **Appendix A**, detailing the assurance levels achieved as well as providing an analysis of recommendations made (in accordance with the assurance level definitions and recommendation risk categories outlined at **Appendix E**). Assurance opinions provided and the associated IA recommendations raised are further summarised in the charts below:

Chart 2 - IA Assurance Opinions

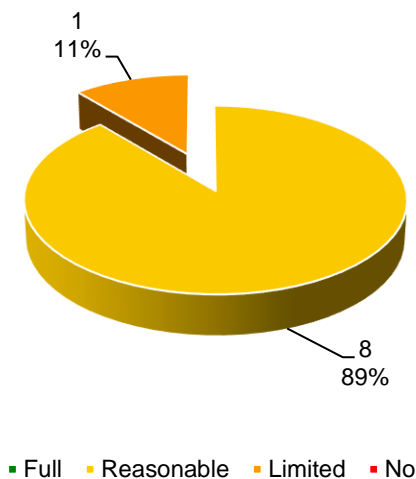
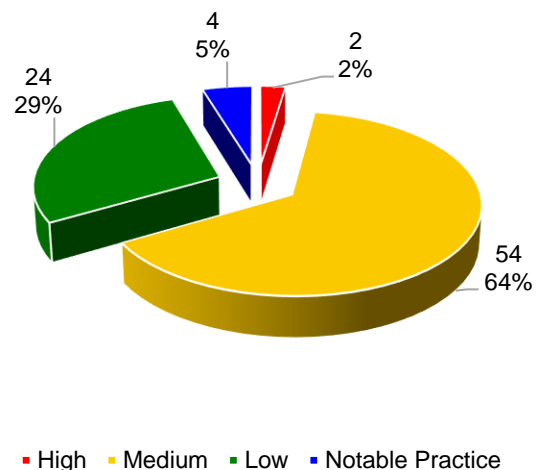


Chart 3 - IA Recommendation Ratings



3.1.3 This quarter the **Cyber Incident Management** review was awarded a **LIMITED** assurance opinion where **1 HIGH** and **5 MEDIUM** risk recommendations were raised (refer to **Appendix A**). Although we found the Council's defence against cyber-attacks to be sufficient, the risks identified include developing, implementing and testing a Cyber incident response procedure, improving the risk management process, staff training and proactive monitoring of breaches. **Positive action has been proposed** by management to address all of the **HIGH** and **MEDIUM** risk recommendations raised.

3.2 Consultancy Work in Quarter 3

3.2.1 The IA team continues to undertake some consultancy work across the Council. The consultancy coverage includes IA staff attending working groups or project groups, whilst ensuring they are clear about whether they are attending in an assurance or advisory capacity. This type of approach to IA work continues to help increase IA's knowledge of corporate developments that feed into the risk based deployment of IA resource on assurance work.

3.2.2 Participation in working and project groups within the Council continues to help individual IA staff develop, whilst at the same time increasing the value IA provides to the Council. Due to the nature of consultancy work, we do not provide an assurance opinion or formal recommendations for management action. However, as part of our advisory reports and memos we do provide specific observations and improvement suggestions for senior management to consider.

3.2.3 Attached at **Appendix A** is the list of consultancy work carried out this quarter with **2** consultancy reviews (**Hillingdon Shared Lives** and **Safeguarding Adults Review**) finalised. The latter review was added to the Quarter 3 IA Plan following a request by management (refer to **Appendix B**). During this quarter we have also completed our work on the **Private Sector Housing Working Group**. This means that a full assurance review of this area will be conducted in Quarter 4 (refer to **Appendix C**) as planned. To ensure continued IA independence, the Principal Internal Auditor, who participated in the Working Group, will not be involved in performing or reviewing the IA assurance review of this area.

3.3 Grant Claim Verification Work in Quarter 3

3.3.1 During this quarter, IA has also assisted the Council in certifying **2** grant claims. As detailed at **Appendix A**, IA continues to carry out verification work on the **Troubled Families (TFs) Grant** as well as completing work on the **Disabled Facilities Grant (DFG)**.

3.3.2 As detailed at **Appendix A** the planned quarterly verification work on the **TFs Grant** progressed this quarter. IA tested a sample of TFs that have been identified as being 'turned around' by the Council's TFs Team. At the conclusion of our work we issued IA memos in October, November and December 2019; the total number of families claimed by the Council in Quarter 3 was **413**.

3.3.3 The **DFG** provides a framework for local authorities to provide mandatory grants for housing adaptations for disabled people to enable them to live independently in their own homes. Our DFG certification work confirmed the expenditure incurred was in compliance with the grant conditions. As a result of our testing, we are pleased to state that the grant claim to Department for Communities and Local Government (DCLG) was signed off by the Chief Executive, prior to the 31st October deadline, with an unqualified opinion.

3.4 Follow-up of Previous Internal Audit Recommendations in Quarter 3

3.4.1 IA continues to monitor all **HIGH** and **MEDIUM** risk IA recommendations raised, through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management. In addition to this, we actively follow-up on prior **LIMITED** or **NO** assurance reviews within 6 to 12 months after their finalisation.

3.4.2 Our dedicated follow-up verification review found that **75%** (75) of the **100** IA recommendations that have been followed-up were deemed **Implemented**. Of the remaining **25** recommendations, IA confirmed that:

- **5** were **Partly Implemented**;
- **18** were **No Longer Applicable** because the risk no longer existed i.e. due to changes in working practices or in structures since the IA review was undertaken; and
- **2 recommendations** were **Not Implemented**, this is despite management/risk owners having marked these recommendations as **Implemented**.

3.4.3 Whilst the 2% of recommendations determined as **Not Implemented** is a lower percentage than reported in previous quarters, it is still some concern to the HIA that any recommendations are being recorded in our dedicated follow-up system (TeamCentral) as **Implemented**, when in fact sufficient positive action has not been taken by risk owners. As a result, the HIA has formally reported these two cases to the relevant Corporate Director and Head of Service respectively for their information and robust management action (**refer to Appendix A**). Also, additional IA training on TeamCentral has also been offered to the relevant risk owners to help prevent a reoccurrence in future. Further, each of the 7 recommendations determined as **Partly Implemented** or **Not Implemented** have been reopened on TeamCentral, with new implementation dates applied for active monitoring and tracking. These recommendations will then be followed-up by IA in due course as these revised dates fall due.

3.4.4 This quarter the IA team has carried out work to independently verify recommendations that have been marked by risk owners on TeamCentral as **Implemented**. The **Follow-Up of Previous IA Recommendations** exercise involves reviewing new evidence, which supports the original recommendation and manages the risk. In Quarter 3 IA reviewed **54** recommendations, which compares favourably to the **18** recommendations previously verified in Quarter 2. Putting additional IA resource into this area helps the Council manage its risks more effectively and ensures that the TeamCentral record is accurate and up to date.

3.4.5 Our follow-up work on **Positive Behaviour Support (PBS) Team** has concluded. In January 2019 IA awarded PBS **LIMITED** assurance and raised **7 MEDIUM** risk recommendations. As a result of our recent follow-up testing we can confirm that **3** of the **7 HIGH** and **MEDIUM** risk recommendations raised have been **Implemented**, **3** recommendations were **Partly Implemented** and **1** recommendation was **Not Implemented**. In line with standard IA practice, the 4 recommendations deemed **Partly Implemented** or **Not Implemented** have been reopened on our dedicated follow-up system, TeamCentral, with new implementation dates agreed with management/risk owners and will then be followed-up in due course as these revised dates fall due.

3.4.6 Our follow-up work on **Merchiston House** has also concluded. In May 2019 IA awarded Merchiston House **LIMITED** assurance and raised **2 HIGH** and **4 MEDIUM** risk recommendations. As a result of our recent follow-up testing we can confirm that all **6** of the **HIGH** and **MEDIUM** risk recommendations raised have been **Implemented** and have been marked as 'Closed – Verified' on TeamCentral.

3.5 Other Internal Audit Work in Quarter 3

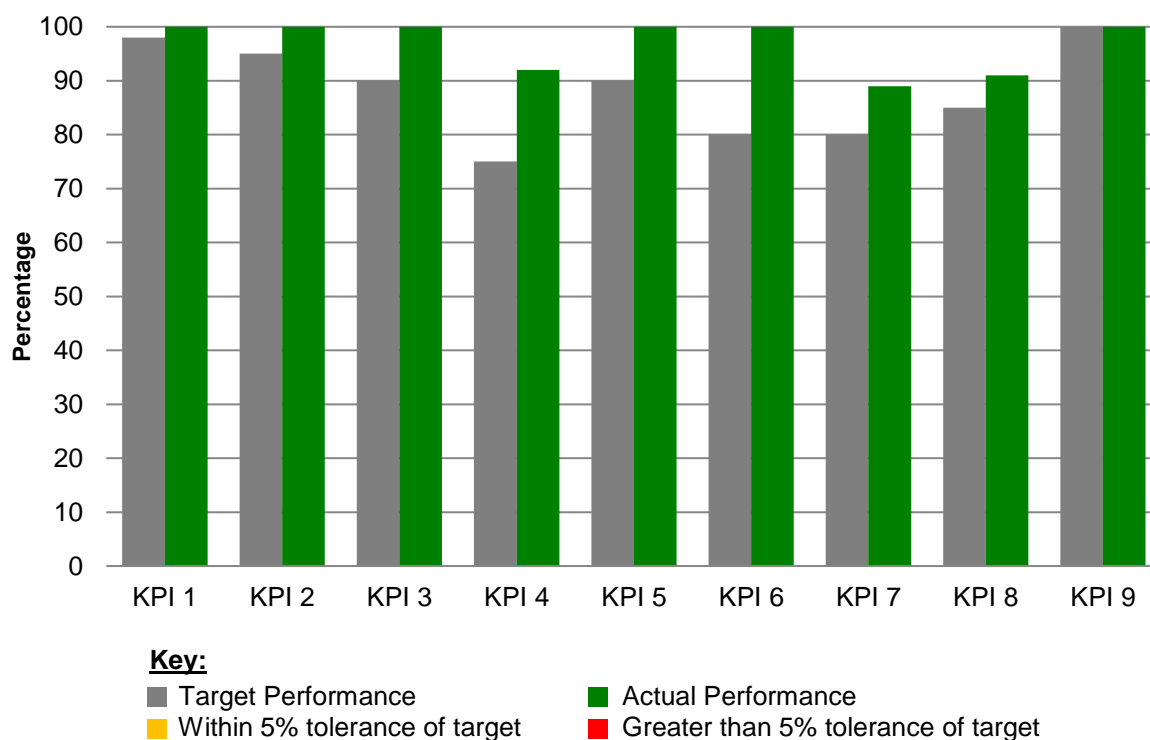
3.5.1 We continue to undertake a quarterly approach to IA planning to ensure emerging risks and new areas of concern are captured, particularly within the fast changing environment the Council operates in. Over the last quarter we have undertaken our risk based planning meetings, alongside operational and corporate risk discussions due to the synergies between these two functions. Further to this, we have produced the detailed operational IA plan for Quarter 4 of 2019/20 (refer to **Appendix C**) in consultation with management. This quarterly planning cycle helps ensure that IA resources are directed in a more flexible and targeted manner, maximising resources as well as benefiting our stakeholders.

4. Analysis of Internal Audit Performance

4.1 IA Key Performance Indicators

4.1.1 The IA KPIs measure the quality, efficiency and effectiveness of the IA service. They assist IA and the Council in helping measure how successful IA has been in achieving its strategic and operational objectives. We believe that these KPIs (as detailed at **Appendix D**), are meaningful and provide sufficient challenge to the service. They measure the quality, efficiency and effectiveness of the IA service and thus assist us in providing an added value assurance and consulting service to our range of stakeholders. Cumulative performance against the KPIs in the 1st October to 31st December 2019 period is summarised below:

Chart 4 - 2019/20 IA Key Performance Indicators

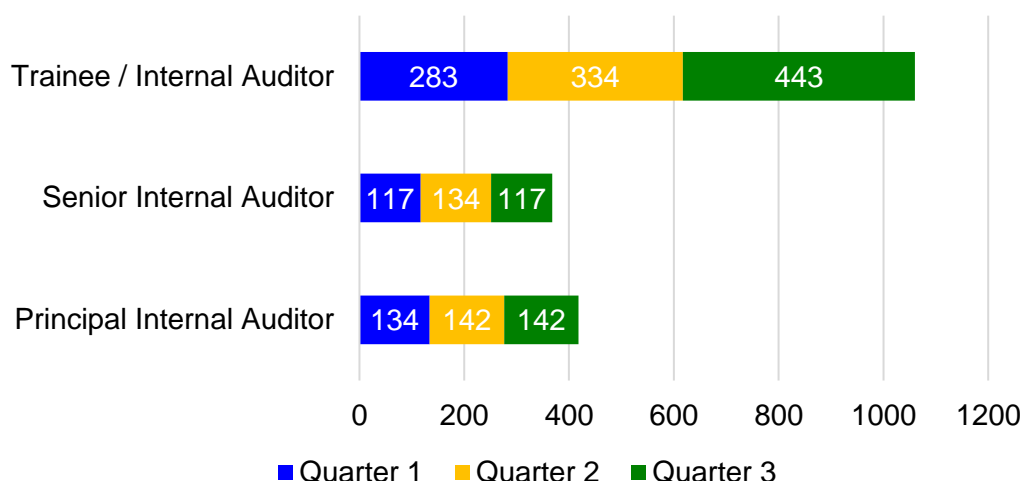


4.1.2 In Quarter 3 all nine IA KPIs were met or actual performance exceeded the target set. This is an excellent achievement by the IA team during a period of inducting three new IA staff and the considerable amount of time this process takes. In relation to KPI 7 (the time taken to finalise final reports from draft stage), performance has dropped slightly in Quarter 3 compared to Quarter 2 (100% in Q2, to 89% in Q3). The reason for the drop in overall performance is due to one audit (**Cyber Incident Management**) where the report finalisation exceeded the 15 day target. Nevertheless, the 80% target is still being exceeded and IA performance in this area is currently very good.

4.2 2019/20 Staffing Matrix

4.2.1 Following a request by the Audit Committee raised in previous meetings, the IA 2019/20 Quarter 3 Progress Report contains a **Staffing Matrix** (refer to chart overleaf) which provides a summary breakdown and comparison of each category of IA staff's performance including **the total days spent on IA reviews in 2019/20 to date**, by each category of IA staff.

4.2.2 In **2019/20** the approved IA annual resource **plan had 765 chargeable IA days**. By 'chargeable' we mean time allocated for IA reviews that IA staff carry out. This excludes non-chargeable time by IA staff which includes training (internal, external and professional), management duties such as performance and quality reviews, attending team meetings and IA improvement plan responsibilities.

Chart 5 - Total days spent on IA reviews in 2019/20 to date (Quarters 1 to 3)

4.2.3 To help understand the figures summarised above in **Chart 5**, the following points should be noted:

- For the Trainee / Internal Auditor role:
 - 1 Apprentice and 2 Internal Auditors have been with the IA team prior to 2019/20 Q1;
 - 1 Internal Auditor and 1 Secondee joined the IA team during Q3;
- For the Senior Internal Auditor (SIA) role:
 - There is currently 1 SIA in the IA team structure;
- For the Principal Internal Auditor (PIA) role:
 - There are 2 officers in this category, one of whom (the Risk and Insurance Manager) joined the IA team during Q3; and
- For each piece of work that IA undertakes, often several IA staff members can be working on the assignment simultaneously. For example the SIA could have assistance from one or two trainees and that work is also reviewed by the PIA and HIA. As a result, looking purely at a 'days v assignments' performance data report would not provide a full picture or an accurate reflection of work undertaken by individual IA staff.

4.2.4 Staff performance against chargeable and non-chargeable work is reviewed extensively within the IA team. All operational staff must complete weekly timesheets where each activity/work they perform is allocated to a code and time is logged accordingly. Utilisation targets are prepared annually, weekly timesheets help staff and managers check that utilisation targets are being met on a monthly, quarterly and annual basis. Any deviations are discussed with staff during regular 1:1's as well as 6 monthly and annual performance review meetings. All of these methods form our robust performance management process.

5. Forward Look

- 5.1 Following a change within the Troubled Families (TF) Team there has been a revised Council-wide initiative to support more families through the TF programme. This will naturally have an effect on the number of families that IA test during Quarter 4, as the more families the Council support the more the IA team is expected to verify. As a result, we will continue to train more IA team members on the TF programme which helps knowledge sharing, increasing IA's skills set and balancing workloads within the IA team.
- 5.2 The HIA has agreed to temporarily cease IT audits in Quarter 4 while the ICT team focus on implementing previous IA recommendations and completing other time critical work. However, we are still working with ICT to agree the IT Audit Plan for 2020/21.

5.3 IA would like to take this opportunity to formally thank all staff throughout the Council with whom it had contact during Q3. There has been a continued collaborative approach in IA's working relationship with staff and management who have generally responded very positively to IA findings. There are no other matters that the HIA needs to bring to the attention of the Council's CMT or Audit Committee at this time.

Sarah Hydrie CMIIA, CIA
Head of Internal Audit & Risk Assurance

2nd January 2020

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2019/20**

Key:			
IA = Internal Audit	H = High Risk	M = Medium Risk	L = Low Risk
NP = Notable Practice	CFQ = Client Feedback Questionnaire	ToR = Terms of Reference	

2019/20 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 31 st December 2019	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
19-A12	Cyber Incident Management	Final report issued on 19 th Nov 2019	Limited	1	5	1	0	✓
19-A6	Imported Food Office – Regs 669 & 884	Final report issued on 22 nd Jul 2019	Reasonable	0	4	2	0	✓
19-A8	Cash Handling in Registrar's Office	Final report issued on 5 th Aug 2019	Reasonable	0	3	3	0	✓
19-A1	*Thematic Review of Schools Payroll	Final report issued on 9 th Sep 2019	Reasonable	0	16	5	1	✓
19-A2	Compliance with Criminal Finances Act	Final report issued on 9 th Sep 2019	Reasonable	1	5	4	0	✓
19-A4	Battle of Britain Bunker	Final report issued on 30 th Sep 2019	Reasonable	0	5	6	1	✓
19-A3	Grounds Maintenance - Spend on High Value Equipment	Final report issued on 30 th Sep 2019	Reasonable	0	7	1	0	✓
19-A7	Food H&S - Site Inspections	Final report issued on 24 th Oct 2019	Reasonable	0	7	1	0	✓
19-A14	Absence Management	Final report issued on 9 th Dec 2019	Reasonable	0	2	1	2	✓
19-A13	**Thematic Review of Pupil Premium Funding in Schools	Testing in progress						
19-A19	Corporate Governance	Testing in progress						
19-A20	Payment Process New Yr's Green Lane	Testing in progress						
19-A21	Missing Children from Home and Care	Testing in progress						
19-A22	Voids Management	Testing in progress						

* Total number of recommendations raised across 6 schools

** Total number of schools in IA sample is 7

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2019/20****2019/20 IA Assurance Reviews:**

IA Ref.	IA Review Area	Status as at 31 st December 2019	Assurance Level	Risk Rating				CFQ Received?
19-A25	Admin of DSG in Nurseries	Testing in progress						
Total Number of IA Recommendations Raised				2	54	24	4	
Total % of IA Recommendations Raised				2%	64%	29%	5%	

2019/20 IA Follow-Up Reviews:

IA Ref.	IA Follow-Up Review Area	Status as at 31 st December 2019	Recommendations					CFQ Received?
			Implemented	Partly Implemented	Not Implemented	+N/A	Total	
19-A10	Volunteering	Memo issued on 21 st Jun 2019	3	0	0	0	3	✓
19-A11	Trading Standards	Memo issued on 15 th Jul 2019	6	1	0	0	7	✓
19-A17	Cyber Security	Memo issued on 30 th Sept 2019	3	1	1	0	5	✓
19-A16	Positive Behaviour Support Team	Memo issued on 22 nd Oct 2019	3	3	1	0	7	✓
19-A24	Merchiston House	Memo issued on 16 th Dec 2019	6	0	0	0	6	✓
19-A9	Follow-Up of Previous IA Rec's	Testing in progress	54	0	0	18	72	N/A
19-A15	Emergency Duty Team	Testing in progress	-	-	-		-	-
Total Number			75 75%	5 5%	2 2%	18 18%	100	

⁺ IA follow-up work has concluded this recommendation is no longer applicable

2019/20 IA Consultancy Reviews:

IA Ref.	IA Review Area	Status as at 31 st December 2019	CFQ Received?
19-C4	Troubled Families Spot Check	Memo issued on 25 th Jun 2019	N/A
19-C2	Inquest Hearing Preparation	Memo issued on 13 th Sept 2019	✓

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2019/20****2019/20 IA Consultancy Reviews:**

IA Ref.	IA Review Area	Status as at 31 st December 2019	CFQ Received?
19-C5	Hillingdon Shared Lives Fund	Memo issued on 27 th Nov 2019	✓
19-C8	Safeguarding Adults Review – Learning Points Verification	Memo issued on 23 rd Dec 2019	Not yet due
19-C1	Private Sector Housing Q1 - Q3 (Working Group)	Advisory work concluded in Q3	N/A
19-C3	HR IT Projects (Working Group)	Testing in progress	
19-C7	Payment Modernisation (Working Group)	Testing in progress	

2019/20 IA Grant Claim Verification Reviews:

IA Ref.	IA Review Area	Status as at 31 st December 2019
19-GC1	Troubled Families Grant - Quarter 1	Certified, memos issued on 24 th Apr and 26 th Jun 2019
19-GC3	2017/18 DfE Collaborative Fund (St. Mary's Catholic Primary School)	Certified and memo issued on 27 th Jun 2019
19-GC4	2018/19 DfE Collaborative Fund (St. Mary's Catholic Primary School)	Certified and memo issued on 27 th Jun 2019
19-GC8	Troubled Families Grant - Quarter 2	Certified, memos issued on 24 th Jul, 29 th Aug and 27 th Sep 2019
19-GC2	Housing Benefit Subsidy Grant	Certified and memo issued on 22 nd Aug 2019
19-GC7	Pothole Action Fund	Certified and memo issued on 11 th Sep 2019
19-GC6	Bus Service Operators Grant	Certified and memo issued on 27 th Sep 2019
19-GC5	Disabled Facilities Capital Grant	Certified and memo issued on 30 th Oct 2019
19-GC9	Troubled Families Grant - Quarter 3	Certified and memos issued on 23 rd Oct, 29 th Nov and 18 th Dec

APPENDIX B**REVISIONS TO THE 2019/20 INTERNAL AUDIT PLAN ~ QUARTER 3****AMENDMENTS to the 2019/20 Operational IA Plan for Quarter 3:**

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
19-C6	Administration of Dedicated Schools Grant in Nurseries	Consultancy	MEDIUM	Tony Zaman Corporate Director, Social Care	Following the IA planning meeting with the audit sponsor, it was mutually agreed that due to the risks in this area an Assurance audit would add more value than a consultancy piece and therefore the review type was changed accordingly.
19-C7	Payment Modernisation	Consultancy	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	During the background/ planning phase, it became apparent that this work is a long-term project, which requires IA assistance in an advisory capacity rather than a one-off review. The Principal Internal Auditor will attend weekly Working Group meetings and offer advice and support.

IA work DEFERRED from the 2019/20 Operational IA Plan for Quarter 3:

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
19-A18	Cyber Maturity Assessment	Assurance	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Due to several high profile pieces of work, which are due to for completion in quarters 3 and 4 the ICT team requested IA defer this audit. On the basis that IA have performed dedicated IT reviews this year, raised numerous recommendations and carried out follow-ups we are satisfied that the risk landscape can be managed effectively whilst we take a temporary hiatus. In the meantime, IA is preparing the IT Audit Plan for 2020/21 with key contacts.
19-A23	Counter Fraud Policies	Assurance	MEDIUM	Paul Whaymand Corporate Director of Finance	It was agreed that the timing of this review was too early to provide assurance to management over key risks. The Council's Counter Fraud policies were revised and published in October 2019, a training workshop is being delivered Council-wide from December 2019 and an e-learning module is currently in development. This audit will be reinstated when the Counter Fraud policies and training have had time to be embedded across the Council.

APPENDIX B (cont'd)**REVISIONS TO THE 2019/20 INTERNAL AUDIT PLAN ~ QUARTER 3****IA work ADDED to the 2019/20 Operational IA Plan for Quarter 3:**

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
19-C8	Safeguarding Adults Review – Learning Points Verification	Consultancy	HIGH	Tony Zaman Corporate Director, Social Care	During the quarterly IA planning meeting, the Assistant Director Social Care, Mental Health and Learning Disabilities requested IA provide assistance for the preparation of an inquest hearing due to take place in January 2020. The work involves independently verifying each of the Council owned 'Actions to Improve Practice', to ensure our evidence is available, complete and robust to challenge. IA agreed to perform the work due to the risk and time constraints involved.

APPENDIX C**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2019/20 ~ QUARTER 4****IA work scheduled to commence in the 1st January to 31st March 2020 period:**

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
19-A26	Private Sector Housing	Assurance	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Following the 2017/18 IA assurance review of Houses in Multiple Occupation (HMO) which received a NO assurance opinion and the subsequent follow-up reviews conducted in 2017/18 and 2018/19 IA found that the control environment, systems, processes and team structures have moved on so significantly that the recommendations are no longer fully relevant. Following a risk assessment, IA planned to undertake a wider review of the Private Sector Housing Service (including HMOs) in Q4 2019/20.
19-A27	Adult Pathway	Assurance	MEDIUM	Tony Zaman Corporate Director, Social Care	The Adult Pathway is a social care process designed to help residents over the age of 18 who are seeking support from the Council. The Pathway operating model has been working successfully but recently there has been an increase in placements and packages which the Corporate Director, Social Care would like IA to examine. Due to the risks this area poses to our residents and the Council, we have agreed to review this area but focusing on the 'front door' process i.e. first point of contact, decision-making, screening, handover, determination and forecasting of support.
19-A28	Voids Tenancy Management	Assurance	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	The Council's Voids Tenancy Management team have been experiencing challenges recently regarding repairs, contractor capacity, staffing and properties. This IA review will give assurance over the end-to-end process including the computerised tracking system with the aim of identifying and rectifying control weaknesses.
19-A29	Tenancy Management – Terminating a Tenancy	Assurance	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Following a legal case where the Council made a wrongful decision to relinquish a tenancy from a service user under the Deprivation of Liberty safeguard, the Council's processes have been updated to prevent such decisions from occurring again. IA will review the revised control framework and its implementation across Adult Social Care to ensure the risk is being managed appropriately.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2019/20 ~ QUARTER 4****IA work scheduled to commence in the 1st January to 31st March 2020 period:**

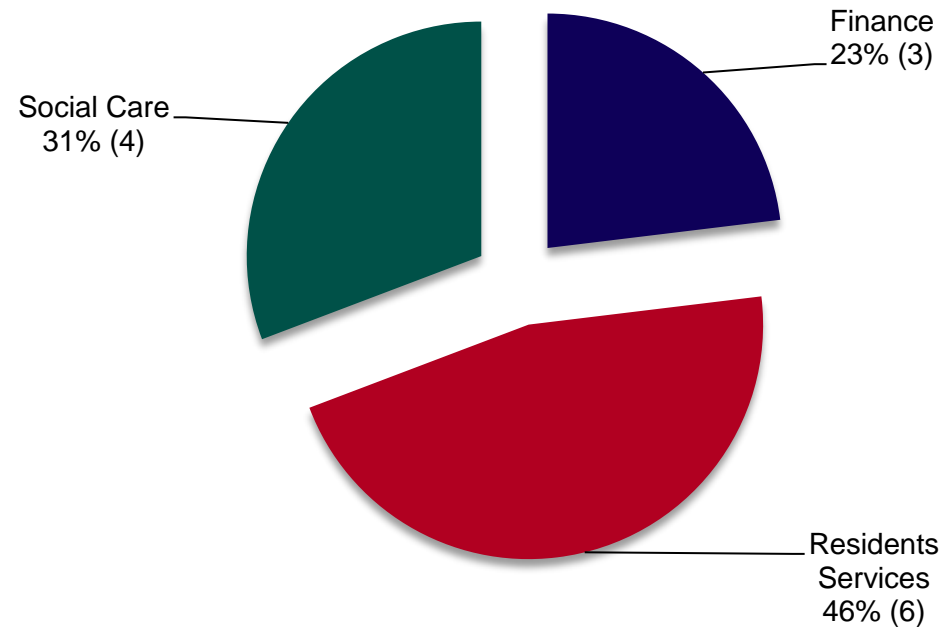
IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
19-A30	Playground Inspections	Assurance	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	The Council is legally required to perform inspections on playgrounds for health and safety and insurance purposes. The current process for recording inspections is quite manual and as a result there is a risk that areas can be missed. This review will provide assurance over the current process for performing inspections as well exploring options for automating manual operations so that the process is working efficiently.
19-A31	Procurement Cards	Assurance	MEDIUM	Paul Whaymand Corporate Director of Finance	Following a recent exercise reviewing procurement card expenditure, invoices and the recording of VAT there have been a number of expenses which have been incorrectly submitted. There is a risk that if the Council staff continue to make incorrect VAT claims we are liable to incur financial penalties. IA will review the current procurement card process to identify whether the control framework is still fit for purpose.
19-A32	Early Years Centres Follow-up	Assurance (Follow-Up)	MEDIUM	Tony Zaman Corporate Director, Social Care	Following the 2018/19 IA assurance review of Early Years Centres which received a NO assurance opinion we will check that the 3 MEDIUM risk recommendations marked as Implemented by management have been verified. We will also check the progress of the remaining 3 HIGH and 2 MEDIUM risk recommendations.
19-A33	Child Protection Conferences Follow-up	Assurance (Follow-Up)	MEDIUM	Tony Zaman Corporate Director, Social Care	Following the 2017/18 IA assurance review of Child Protection Conferences which received a LIMITED assurance opinion we will check that the 8 MEDIUM risk recommendations marked as Implemented by management have been verified.
19-C9	Data Security and Protection (DSP) Toolkit	Consultancy	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	The DSP Toolkit is an online self-assessment tool that allows organisations to measure their performance against the 10 data security standards. All organisations that have access to NHS patient data and systems must use this toolkit to provide assurance that they are practising good data security. IA will check the Council's submission and supporting evidence before it is presented to the NHS.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2019/20 ~ QUARTER 4****IA work scheduled to commence in the 1st January to 31st March 2020 period:**

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
19-C11	Store Stock Check 2019/20	Consultancy	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	IA provides independent oversight and verification of the 2019/20 year end stock check performed at the end of March at Harlington Road Depot (HRD).
19-C10	Mayor's Charity Accounts 2019/20	Consultancy	LOW	Paul Whaymand Corporate Director of Finance	The Mayor's Charity has been registered as a charitable trust in November 2015 and therefore is required to comply and operate within Charity Commission guidelines. The Council is currently preparing the accounts for the Mayor's Charity and IA has been asked to assist as part of this process. These accounts do not form part of the Council's finances so there would be no conflict in undertaking this review.
19- GC10	Public Health England Capital Funding Grant Claim 2019/20	Grant Claim	N/A	Paul Whaymand Corporate Director of Finance	The Council was awarded £69,660 by Public Health England to assist with the welfare pathway for 'Street Homeless Dependent Drinkers'. The HIA and the CEO are required to certify the conditions of the grant have been complied with by 13 th March 2020.
19- GC11	Troubled Families (TF) Grant - Quarter 4	Grant Claim	N/A	Tony Zaman Corporate Director of Social Care	The TF programme is a Central Government scheme under the MHCLG, with the stated objective of helping troubled families turn their lives around. The Council receives a payment by results from the MHCLG for each identified 'turned around' troubled family. As per the grant conditions, IA will undertake verification work to confirm identified TF have been 'turned around'.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2019/20 ~ QUARTER 4 (cont'd)**

IA work scheduled to commence in the 1st January to 31st March 2020 period – Analysis by Corporate Director:



- The relevant Audit Sponsor (Corporate Directors, Directors, Deputy Directors, Assistant Directors and Heads of Service) will be consulted regarding the exact timing of each individual IA review; and
- Where an IA review is deferred or cancelled within the quarter, the relevant Audit Sponsor will be asked to provide an alternative audit in their Directorate (Group).

APPENDIX D**INTERNAL AUDIT KEY PERFORMANCE INDICATORS**

KPI Ref.	Performance Measure	Target Performance	Actual Q3 Performance	RAG Status
KPI 1	2019/20 HIGH risk IA recommendations where positive management action is proposed	98%	100%	GREEN
KPI 2	2019/20 MEDIUM risk IA recommendations where positive management action is proposed	95%	100%	GREEN
KPI 3	2019/20 HIGH risk IA recommendations where management action is taken within agreed timescale	90%	100%	GREEN
KPI 4	2019/20 MEDIUM risk IA recommendations where management action is taken within agreed timescale	75%	92%	GREEN
KPI 5	Percentage of annual (Q1 to Q4) IA Plan delivered to draft report stage by 31 st March	90%	100%	GREEN
KPI 6	Percentage of annual (Q1 to Q4) IA Plan delivered to final report stage by 31 st March	80%	100%	GREEN
KPI 7	Percentage of draft reports issued as a final report within 15 working days	80%	89%	GREEN
KPI 8	Client Satisfaction Rating (from CFQs)	85%	91%	GREEN
KPI 9	IA work fully compliant with the UK PSIAS and IIA Code of Ethics	100%	100%	GREEN

Key for above:

- CFQs = Client Feedback Questionnaires.
- PSIAS = Public Sector Internal Audit Standards.
- IIA = Chartered Institute of Internal Auditors (UK).

Key for future reporting on actual KPI performance:

- **RED** = currently this performance target is not being met (significantly [**>5%**] short of target performance).
- **AMBER** = currently not meeting this performance target (just short [**<5%**] of target performance).
- **GREEN** = currently meeting or exceeding this performance target

APPENDIX E**INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS**

ASSURANCE LEVEL	DEFINITION
SUBSTANTIAL	There is a good level of assurance over the management of the key risks to the Council objectives. The control environment is robust with no major weaknesses in design or operation. There is positive assurance that objectives will be achieved.
REASONABLE	There is a reasonable level of assurance over the management of the key risks to the Council objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains some risk that objectives will not be achieved.
LIMITED	There is a limited level of assurance over the management of the key risks to the Council objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a significant risk that objectives will not be achieved.
NO	There is no assurance to be derived from the management of key risks to the Council objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a high risk that objectives will not be achieved.

- Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
 - establishing and monitoring the achievement of the authority's objectives;
 - the facilitation of policy and decision-making;
 - ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
 - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
 - the financial management of the authority and the reporting of financial management; and
 - the performance management of the authority and the reporting of performance management.
- Risk Appetite:** The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.
- Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

APPENDIX E (cont'd)**INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS**

RISK	DEFINITION
<p>HIGH</p> <p>●</p>	<p>The recommendation relates to a significant threat or opportunity that impacts the Council's corporate objectives. The action required is to mitigate a substantial risk to the Council. In particular it has an impact on the Council's reputation, statutory compliance, finances or key corporate objectives. The risk requires senior management attention.</p>
<p>MEDIUM</p> <p>●</p>	<p>The recommendation relates to a potentially significant threat or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Council. In particular an adverse impact on the Department's reputation, adherence to Council policy, the departmental budget or service plan objectives. The risk requires management attention.</p>
<p>LOW</p> <p>●</p>	<p>The recommendation relates to a minor threat or opportunity that impacts on operational objectives. The action required is to mitigate a minor risk to the Council as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives. The risk may be tolerable in the medium term.</p>
<p>NOTABLE PRACTICE</p> <p>●</p>	<p>The activity reflects current best management practice or is an innovative response to the management of risk within the Council. The practice should be shared with others.</p>

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AUDIT COMMITTEE - 2019/20 Quarter 3 Counter Fraud Progress Report

Committee name	Audit Committee
Officer reporting	Muir Laurie, Deputy Director of Exchequer and Business Assurance Services
Papers with report	2019/20 Quarter 3 Counter Fraud Progress Report
Ward	All

HEADLINES

The attached report presents the Audit Committee with summary information on all Counter Fraud work covered in relation to 2019/20 Quarter 3 and assurance in this respect. It also provides an opportunity for the Deputy Director of Exchequer and Business Assurance Services to highlight to the Audit Committee any significant Counter Fraud issues that have arisen which they need to be aware of. Further, the report enables the Audit Committee to hold the Deputy Director of Exchequer and Business Assurance Services to account on delivery of the Counter Fraud Strategic Plan and facilitates in holding management to account for managing issues identified during the course of the Business Assurance Counter Fraud Team activity.

RECOMMENDATIONS:

That the Audit Committee:

- 1. Notes the Counter Fraud Progress Report for 2019/20 Quarter 3; and**
- 2. Suggests any comments/amendments.**

SUPPORTING INFORMATION

The Counter Fraud Team supports the Council in meeting its statutory responsibility under section 151 of the Local Government Act 1972 for the prevention and detection of fraud and corruption. The work of the team underpins the Council's commitment to a zero tolerance approach to fraud, bribery, corruption and other irregularities, including any money laundering activity.

BACKGROUND PAPERS

The Business Assurance service holds various background research documents in relation to the Counter Fraud Strategic Plan.

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BUSINESS ASSURANCE

Counter Fraud Progress Report to Audit Committee: 2019/20 Quarter 3

2nd January 2020



Contents

The Counter Fraud key contacts in connection with this report are:

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1. Introduction

1.1 The Role of the Business Assurance Counter Fraud Team

- 1.1.1 The Business Assurance Counter Fraud Team (**BACFT**) supports the Council in meeting its statutory responsibility under section 151 of the Local Government Act 1972 for the prevention and detection of fraud and corruption. The work of the BACFT underpins the Council's commitment to a zero tolerance approach to fraud, bribery, corruption and other irregularities, including any money laundering activity.
- 1.1.2 As well as counter fraud activity, there is also a range of preventative work that the team is responsible for carrying out. This includes fraud awareness training and ensuring the Council have up-to-date and appropriate investigation policies and procedures.

1.2 The Purpose of the Counter Fraud Progress Report

- 1.2.1 The Counter Fraud Progress Report provides the Council's Corporate Management Team (CMT) and Audit Committee with summary information on all counter fraud work carried out during the Quarter 3 period (1st October to 31st December 2019). In addition, it provides an opportunity for the Head of Counter Fraud (**HCF**) and the Deputy Director of Exchequer & Business Assurance Services (**DDEBA**) to highlight any significant issues arising from the counter fraud work in Quarter 3.
- 1.2.2 The progress report also highlights to CMT, the Audit Committee and other key stakeholders, the performance of the BACFT in meeting its strategic and operational objectives (as set out in the Counter Fraud Strategic Plan), which provides an opportunity for the HCF and DDEBA to be held to account in this respect.

2. Executive Summary

- 2.1 This quarter, the BACFT has improved on the financial outcomes achieved in the previous quarter by **24.6%**, with **loss prevention savings in the October to December 2019 three month period totalling £614,457**. Our work has been carried out across a wide range of services including Housing, Social Care and Exchequer Services and the BACFT is on track to meet its loss prevention savings **target of £2m for the 2019/20 year**.
- 2.2 This quarter a total of **nine council properties have been recovered**, bringing the total number of properties recovered for **2019/20 to 21**. This means that the BACFT has now exceeded its performance for 2018/19 and is as a result of a successful housing fraud project and a focus on improving the number and quality of fraud referrals received. 52 cases of suspected housing and tenancy fraud are still under investigation with further properties expected to be recovered in Quarter 4. In addition, **five cases of suspected housing fraud** have been passed to the Council's Legal Team for **criminal proceedings** following investigation by the BACFT, with court dates now set for Quarter 4.
- 2.3 Year-to-date results for the Home Office Immigration Enforcement Officer (IEO) embedded within the BACFT shows a total contribution of **£287,637** in loss prevention. The IEO continues to work with a range of Council departments on matters involving the immigration statuses of service users, providing a significant benefit to the Council in preventing the misuse of public funds. **The IEO has also improved on his loss prevention contribution** compared to 2018/19, with further financial contributions to be recorded in Quarter 4.
- 2.4 During November, the BACFT launched a **Fraud Awareness Week** during which the team conducted a series of activities to raise colleagues' awareness of fraud and provide practical information on reporting suspected fraud to the BACFT. **Fraud Risk Workshops** have also been held with a range of managers across the organisation and the BACFT conducted a **communication campaign** utilising the all-staff email, posters within the Civic Centre as well as an information stand outside the staff canteen.

- 2.5 Following this work, **17 teams** across the council have registered an interest in receiving fraud awareness training from the BACFT, a number of managers have requested individual consultation on improving fraud controls and fraud referrals to the BACFT have significantly increased.
- 2.6 The BACFT has continued to carry out effective loss prevention in the Revenues Team (in particular Council Tax) through the use of **NFI data matching** and the Verifications service. This has achieved savings of over **£31k** across Single Person Discount and Council Tax Reduction, bringing the total in this area to over **£91k** for the year so far. Proactive projects in the areas of '**Beds in Sheds**' and '**Small Business Rates Relief**' are both underway and the results will be reported in Quarter 4.
- 2.7 In Quarter 3, **159 referrals for investigation** have been received from internal and external sources. As at 31st December 2019, there are **98** ongoing investigations. **57%** of these (**56**) currently relate to different aspects of housing and tenancy fraud.

3. Analysis of Counter Fraud Activity in Quarter 3

3.1 Housing Fraud

- 3.1.1 The main area of work for the BACFT continues to be the prevention and detection of housing fraud. The Council is exposed to a number of housing fraud risks, as detailed in the Counter Fraud Strategy for 2019/20. The BACFT deploys a significant amount of resource in the prevention and detection of housing fraud.
- 3.1.2 As per **Table 1** below, in Quarter 3 the BACFT has successfully **recovered 9 Council properties**, compared to **4** in Quarter 1 and **8** in Quarter 2. There are **50** ongoing investigations into suspected tenancy fraud and the team are actively pursuing **2** cases for eviction.

Table 1 ~ Housing Tenancy Fraud Cases

Housing Tenancy Fraud Cases	2019/20 (to date)*		2018/19		2017/18	
	Cases	£k/value**	Cases	£k/value	Cases	£k/value
Total number of properties recovered	21	£378k	19	£342k	43	£774K
Total number of ongoing cases	52	£936k	-	-	-	-

* as at 31st December 2019

** = In 2014, the Audit Commission reported the national average temporary accommodation costs to Local Authorities for one family as **£18k per property**. We continue to use this prudent estimate for reporting purposes, although across London a number of authorities are reporting that the true cost of each tenancy fraud case is more accurately estimated as **£94k per property** and some as high as **£150k per property** as a representation of property replacement costs.

- 3.1.3 The BACFT Key Performance Indicator (KPI) 5 (refer **Table 3** in **Appendix A**) targets an outcome of a Council property to be recovered for 20% of tenancy fraud referrals received. In Quarter 3 the team achieved an outcome of **33%**.
- 3.1.4 In Quarter 3 the BACFT began its first **tenancy fraud project** using **data matching** to highlight properties that are likely to be sub-let or not occupied. Visits are underway to properties identified by the matching and 2 cases have been passed to the Counter Fraud Investigators for further enquiries. The project will be completed within Quarter 4 and results included in the next BACFT progress report.

- 3.1.5 In addition to tenancy fraud work, the team carry out investigations into cases of suspected **fraudulent Right to Buy (RTB)** applications. Under the statutory RTB scheme Council tenants can apply to buy their council property at a significant discount from its market value. The scheme operates under strict conditions that must be met by the applicant if they are to qualify for the discount. Fraud is normally committed by applicants who misrepresent their circumstances in order to qualify. The BACFT has so far this year stopped **5 fraudulent RTB applications**. This equates to a loss prevention of **£550,000** in discount to the purchase price that would have been given to the buyer. Currently there are **7 cases of suspected RTB fraud** being investigated by the BACFT.
- 3.1.6 As part of the BACFT's **fraud prevention work** it proactively carries out verifications work on existing Council tenancies and other housing service areas. The BACFT uses the information gathered by Intelligence Officers to conduct necessary checks, including announced (and unannounced) visits to properties by the Verifications Officers. The team also works with a variety of social landlords and statutory agencies to help detect fraud where information sharing protocols are in place. This is to ensure that the people residing in Council properties are genuinely entitled to do so.
- 3.1.7 Per **Table 2** below, in the 2019/20 year to date, the BACFT has successfully identified **436** housing register applications that should be rejected for a variety of different reasons.

Table 2 ~ Housing Tenancy Verification Cases

Housing Tenancy Verification Cases	2019/20 (to date)*	2018/19
Total number of cases reviewed	1,694	1,909
Total number verified as accurate	1,258	1,110
Total number rejected	436	799
% identified by BACFT for rejection	26%	42%

* estimated as at 31st December 2019

- 3.1.8 Of the **436** cases that have been rejected, **9** individuals' applications have been completely closed down. This was due to a range of reasons, such as they do not have 10 years borough residency, they have no immigration status, they own a property elsewhere or they have over £30k in savings or assets. Without the BACFT's enhanced verifications checks, these applicants may have been successful in obtaining a Council property that they were not entitled to.
- 3.1.9 The BACFT Key Performance Indicator (KPI) 2a (refer **Table 3** in **Appendix A**) targets a 90% outcome of Housing allocations verifications to be completed within the target date set by the Housing department. In Quarter 3 the team achieved an outcome of **99%**.
- 3.1.10 The BACFT cover a wide range of work streams, providing assurance over expenditure of residents' grants for property purchasing and high value expenditure on temporary accommodation. The main areas of verification are:
- **First Time Buyer Scheme** - eligibility based grant scheme helping residents who aspire to property ownership to buy their first home;
 - **Right to Buy** - formal verification of every RTB application to identify suspected fraud and ineligibility;
 - **Bed & Breakfast Accommodation** - residency check of all Bed & Breakfast accommodation as part of a proactive project;
 - **Section 17 Applications** - Initial eligibility checks on applicants who approach the Council's Social Care team for assistance with accommodation;
 - **Section 17 Accommodation** - residency check of all Section 17 accommodation as part of a proactive project;

- **Social Housing Allocations** - formal verification of all social housing applicants that are actively seeking accommodation to identify suspected fraud or ineligibility;
- **Mutual Exchange** - Desk checks and unannounced visits to ensure tenants meet the criteria required to exchange; and
- **Succession & Assignment** - Desk checks and unannounced visits, where appropriate, to ensure the applicants meet the relevant eligibility criteria.

3.1.11 During Quarter 3 the BACFT achieved another positive outcome with **2 First Time Buyer** applications being closed due to the applicant not meeting the 10 year borough residency eligibility criteria. Grant payments totalling **£39,120** have been prevented from being wrongly provided to the applicants.

3.1.12 As part of the BACFT's ongoing commitment to the prevention of housing fraud, investigations are carried out into suspected fraudulent applications under homelessness legislation, by individuals who have misrepresented their circumstances hoping to gain Council accommodation. This year the team has so far stopped **2 homeless applications** and funding for **3 Bed & Breakfast accommodation**, resulting in loss prevention of **£44,495** in accommodation costs.

3.1.13 In an effort to provide greater value to the Council by the use of verifications processes, the BACFT is currently in discussion with the Disabilities Facilities Grant (DFG) Team surrounding the use of verifications to identify fraudulent DFG applications. The DFG scheme operates within strict eligibility criteria which must be met if applicants are to receive a grant. A pilot project verifying a small number of DFG applications is now reaching conclusion. **13 cases** have been received and are currently under review, with **2** applications so far refused preventing grants totalling **£13,000** from being paid.

3.2 National Fraud Initiative & Internal Data Matching

3.2.1 The National Fraud Initiative (NFI) is a data matching exercise co-ordinated by the Cabinet Office and is conducted every 2 years. The NFI matches data from over 1,300 organisations, including councils, the police, hospitals and almost 100 private companies to identify potential fraud and error.

3.2.2 NFI data matches for Hillingdon were received during the first week of February 2019 and in Quarter 3 the BACFT has achieved **loss prevention savings of £23,730** in the area of **Council Tax** (Discounts and Exemptions). This year the BACFT has placed a greater emphasis on the use of data matching and analytics to help prevent and detect fraud against local taxpayers' money. It will also be used to identify further loss prevention opportunities and to support upcoming planned projects.

3.2.3 In August 2019 the **NFI provided new matches utilising data provided by HM Revenues & Customs**. The new data was matched to help identify suspected tenancy fraud and fraudulent council tax discount and exemption claims. The team have been working through the highest risk matches during this quarter. 1 case has been referred to an investigator for suspected subletting of Council accommodation and further updates will be available in the next 3 to 6 months.

3.2.4 The NFI data matching project, as coordinated by the BACFT, returns matches that are utilised by Council teams other than the BACFT, to identify potential error and financial loss. Using NFI data matches across Council departments has enabled the Council to make additional savings to those identified by the BACFT. **The Cabinet Office has reported** that in 2019/20 to date, the Council has achieved financial loss prevention savings of **£388,860 across all areas of NFI work**. This figure is not included in the savings reported by the BACFT as the Cabinet Office's calculation includes extrapolation across a number of years, whilst the BACFT has adopted a more prudent methodology. However, this figure is relevant as it demonstrates the wider value the NFI project has to the Council.

3.3 New Homes Bonus Empty Properties Project

- 3.3.1 The New Homes Bonus (NHB) is a grant paid by central government to the Council to incentivise local housing growth. It is based on the extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use.
- 3.3.2 During Quarter 3 the BACFT has worked alongside colleagues within Exchequer Services to identify properties that were classified as long-term empty and are now occupied. Following initial checks and information gathering by Exchequer Services, the **BACFT has conducted unannounced visits** to properties where it was determined that a visit is required. As a result of this work, the Council's NHB grant for 2020/21 has been calculated at **£1,084,020**, which is **£300k** above the budget figure originally estimated by the Council. This work jointly carried out by BACFT and Exchequer Services directly impacts on the amount of grant, as each long-term empty property that is identified as now occupied subsequently attracts additional grant funding for the Hillingdon taxpayers.

3.4 Revenues Inspections

- 3.4.1 The **Business Rates & Council Tax inspections** operational processes are now fully integrated into the BACFT, providing continuity of service in this area. Four Verifications Officers are now trained to undertake inspections and all relevant BACFT members of staff have undertaken, or are in the process of undertaking, training from external providers and/or by Exchequer Services managers. Paperless inspection processes are in development ensuring the approach is aligned to the Counter Fraud Strategy and the risk based methodology used across BACFT operations. As part of the working relationship between BACFT and Exchequer Services, regular discussions are being held to design and implement new ways of working, to help continually develop and improve processes.
- 3.4.2 In Quarter 3 there has been a focus on identifying '**Beds in Sheds**' within the borough to increase Council Tax revenue. 'Beds in Sheds' is the term used to describe buildings or annexes on private properties that have erected without the Valuation Office being made aware and that can be considered habitable and should therefore be charged Council Tax.
- 3.4.3 A pilot exercise has been conducted and 40 properties have been through intelligence checks to highlight high likelihood properties. A visiting programme is due to commence in January 2020 with outcomes available in the Quarter 4 progress report. To date, **4 Beds in Sheds** referrals have been received and visited by BACFT, with all 4 to be brought into Council Tax.

3.5 Immigration Enforcement Officer

- 3.5.1 Since 16th April 2018, the BACFT has had a Home Office Immigration Enforcement Officer (IEO) working as part of the team. The purpose is to provide enhanced access to Home Office data for the purpose of assessing cases involving immigration issues and for assisting in a range of counter fraud work. The IEO has so far provided invaluable assistance in counter fraud work and many other Council service areas, such as Social Care and Housing. As a result, the IEO's financial loss prevention work across the Council in Quarter 3 is prudently estimated at **£72,519**. Please refer to **Table 4** in **Appendix B** for a detailed breakdown of the identified loss prevention savings to date.
- 3.5.2 This quarter the IEO has attended Children Social Care team meetings to promote his services. Immigration enquiries have predominantly been received from Housing Services, resulting in **3 Homeless Applications being closed**. Applicants were found to not be eligible as they had no right to access public funds.
- 3.5.3 In addition, as part of our agreement with the Home Office, the IEO has provided **document verification training sessions** to relevant members of Council staff, including colleagues within HR and Housing. Further training is being offered in Quarter 4 for all Council staff where document checking is a part of front line functions.

3.5.4 Finance monitoring reports indicate an **under-spend in the area of asylum of £400k to the forecast budget in Quarter 4**. This is attributable to a number of factors related to the recovery of rent arrears and a more robust approach to the financing of accommodation for asylum claims.

3.5.5 A clear direct link from this asylum budget under-spend to the work of the IEO is not possible and as a result it has been excluded within the loss prevention figures for the IEO's work. However, since the IEO joined the BACFT, the number of **UASC in shared accommodation has fallen by 45% from 134 in 2016 to the current figure of 73**. This is as a result of a range of measures put in place including advertising the IEO's presence across the Council, fraud awareness training and the BACFT working more closely with colleagues in Social Care.

3.6 Social Care

3.6.1 As part of verifications work the BACFT conducts initial eligibility checks on applicants who approach the Council for **accommodation under the Section 17** emergency provisions. 7 applications have been reviewed in Quarter 3, with 1 application being cancelled due to the family having undeclared funds to pay for their own accommodation. This has prevented a loss to Hillingdon taxpayers of **£8,095.71**. The BACFT also receives referrals from social services regarding other suspected fraudulent activity. 2 cases have been successfully investigated for falsely claiming funds and non occupation of accommodation, saving an estimated **£12,882**.

3.6.2 A proactive project conducting a residency check for all Section 17 funded accommodation has commenced this quarter. This is to ensure the occupation of accommodation and give assurance over Section 17 expenditure. Out of hours visits are being conducted to confirm residency. The project is ongoing and results will be available in Quarter 4.

3.7 Blue Badge Fraud

3.7.1 Blue Badge permits provide parking concessions for people with severe mobility problems. Historically the scheme was restricted to people with physical disabilities related to mobility allowing them to park closer to their destination. However, in the biggest overhaul to the scheme since the 1970s, the new criterion has **extended eligibility to people with less visible conditions. Residents that have been diagnosed with autism and or other mental health conditions are now able to apply for a Blue Badge**.

3.7.2 The direct monetary value of Blue Badge Fraud is relatively low but the reputational risk in relation to this area is significant for the Council. Consequently, Blue Badge Fraud continues to feature in the BACFT's work plan with a planned approach to conduct proactive Blue Badge 'operations'.

3.7.3 In Quarter 3, a proactive Blue Badge misuse operation was carried out in Uxbridge High Street. The results were as follows:

- **62 badges checked** by BACFT officers;
- **4 Expired badges seized** and returned to the blue badge team; and
- **4 Cases under investigation** for misuse, with outcomes expected to be reported in Q4.

3.8 Other Counter Fraud Activities

3.8.1 During the last week of November the BACFT launched their inaugural **Fraud Awareness Week**. An information stand was set up outside of the staff canteen manned by the BACFT. Advice and guidance was provided to colleagues who came to speak to members of the team. This has led to staff within a number of service areas registering their interest in receiving Fraud Awareness Training for their teams and the increase in numbers of fraud referrals received for the end of the Quarter.

- 3.8.2 As part of Fraud Awareness Week, two **Fraud Risk Workshops** have been delivered to senior members of staff aimed at increasing awareness of the risk of fraud, identifying new risks and opening up a discussion with managers about how to best address specific risks for respective services. 26 senior members of staff attended and have provided positive feedback, with further workshops to be arranged for the new year and Fraud Awareness sessions organised with a number of teams during Q4.

4. Analysis of the Counter Fraud Team's Performance in Quarter 3

- 4.1 In 2018/19 the BACFT agreed and implemented a set of KPIs for to allow effective measurement of team performance and enable the team, the HCF and the DDEBA to be better held to account by CMT and Audit Committee.
- 4.2 Attached at **Appendix A** is **Table 3**, which sets out the performance by the BACFT against the six KPIs in Quarter 3. The team's performance against its KPIs has now significantly improved when compared to 2018/19 and is on track to improve further in Quarter 4. In particular, **6 of the 8 KPIs have exceeded performance targets for this quarter**, whilst the remaining 2 areas will receive a greater focus by the HCF in Quarter 4. The KPI related to 'investigations resulting in sanction' should be read in the context of the number of cases that are currently subject to criminal proceedings that will likely conclude in Quarter 4.
- 4.3 **Table 4** at **Appendix B** provides an overview of the financial performance of the team in 2019/20 within each of the main areas of counter fraud activity.

5. Forward Look

- 5.1 Looking ahead, the focus on developing new ICT based solutions to revenues inspection work will continue, alongside proactive projects for **Beds in Sheds** and **Small Business Relief**. Verifications Officers will continue to receive training on the Revenue Inspections functions to enhance their knowledge and skills particularly in relation to complex cases.
- 5.2 A new **Tenancy Fraud residency check project** is currently in the planning stages. The project will verify that Council tenants are in occupation as well as identify any unlawfully sublet properties. Where the team establishes non-occupation, the overall objective will be to recover properties so they can be provided to LBH residents genuinely in need of them.
- 5.3 As part of our commitment to the **NFI**, new data matches becoming available this month will be a focal point within Quarter 4. These matches have in past years provided many successful financial outcomes and we expect similar results for the forthcoming financial year. The BACFT are also in discussion with the Cabinet Office regarding LBH becoming a pilot site for new innovative data matching for **DFGs** and **Beds in Sheds**.
- 5.4 The BACFT will deliver a proactive project reviewing expenditure and accommodation of **Unaccompanied Asylum Seeking Children (UASC)**. This will provide financial savings and continued assurance over this area of Council expenditure.
- 5.5 Four members of BACFT will be undertaking their **Accredited Counter Fraud Technician** training during Quarter 4. This further underlines the Council's commitment to ensuring that it has a **professional Counter Fraud Team** with **highly skilled and qualified officers** to prevent fraud against LBH taxpayers. The BACFT would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the management and staff of the Council during Q3. There are no other counter fraud matters that the DDEBA needs to bring to the attention of CMT or the Audit Committee at this time.

Muir Laurie FCCA CMIIA

Deputy Director of Exchequer & Business Assurance Services

2nd January 2020

APPENDIX A**Table 3 ~ BACFT Quarter 3 KPIs and Actual Performance**

BACFT KPIs	Target	Q1	Q2	Q3	19/20	18/19
1. Percentage of fraud referrals risk assessed within 3 working days	95%	94%	100%	100%	98%	66%
2. Verification work timescales for completion:						
a. Housing Allocations completion within the target date set by Housing. ¹	95%	² 90%	96%	99%	95%	² 90%
b. First Time Buyer completion within 5 working days	95%	100%	100%	100%	100%	90%
c. Right to Buy case completion within 28 working days	95%	64%	78%	100%	81%	54%
3. Investigation plan completion within 5 working days of case allocation	95%	100%	94%	89%	94%	67%
4. Tenancy fraud referrals received resulting in property recovery	20%	23%	29%	33%	28%	18%
5. Investigations resulting in sanction (prosecution/penalty/caution)	10%	8%	0%	0%	3%	6%
6. Investigations resulting in loss prevention/financial saving outcome	25%	23%	47%	30%	33%	22%

¹ This KPI has been updated this quarter on review of verifications performance and the needs of Housing Services. The previous KPI was "Housing Allocations completion within 3 working days".

² The performance for Q1 and for 2018/19 is shown against the previous KPI of completion within 3 working days.

APPENDIX B**Table 4 ~ BACFT Quarter 3 2019/20 Financial Performance**

Work Area	Description	Quarter 3	2019/20
Housing	Right to Buy discounts	£218,500	£550,000
	Property Recovery (notional savings)	£170,095	£386,095
	Other savings/loss prevention	£68,450	£139,129
	Prosecution costs	£0	£0
Social Services	Loss Prevention	£20,978	£20,978
Revenues	Council Tax Reduction	£5,311	£5,708
	Single Person Discount	£26,658	£85,457
	Council Tax Arrears	£3,246	£5,845
	Council Tax Exemptions	£0	£1,005
	Beds in Sheds	£4,791	£4,790
	Housing Benefit Overpayments	£23,909	£33,781
Blue Badge	Simple Caution & Financial Penalty	£0	£200
	Prosecution Costs Received	£0	£0
Immigration Officer	Housing First Time Buyer scheme*	£0	£0
	Housing Homelessness Applications**	£24,287	£116,018
	Asylum Seeking Children Expense***	£48,232	£157,496
	Social Services Section 17 Expense**	£0	£14,123
	IEO Sub Total	£72,519	£287,637
Totals	Loss Prevention	£311,998	£858,614
	Notional Savings	£207,004	£432,877
	Cashable Savings	£95,455	£228,934
	Costs awarded and penalties	£0	£200
	Total	£614,457	£1,520,625

* First time buyers - Average grant given per person based on 2018/19.

** Average weekly cost against average length of support. This figure fluctuates but has been provided by the Council's business performance team.

*** Cost of accommodation and subsistence per week for one year. This figure is a prudent estimate as the Council can and does often support asylum seeking children until they are 25 years old.

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AUDIT COMMITTEE FORWARD PROGRAMME 2019/20

Committee name	Audit Committee
Officer reporting	Anisha Teji, Chief Executive's Office
Papers with report	None
Ward	All

HEADLINES

This report is to enable the Audit Committee to review planned meeting dates and the forward programme.

RECOMMENDATIONS

That the Audit Committee:

1. confirms the dates for Audit Committee meetings; and
2. makes suggestions for future agenda items, working practices and / or reviews.

SUPPORTING INFORMATION

The meeting on Monday 3 February 2020 will start at 17:10.

Meetings	Room
6 February 2019	CR 6
25 April 2019	CR 5
22 July 2019	CR 4
21 October 2019	CR 4
3 February 2020	CR 4
23 April 2020	CR 5
30 July 2020	CR 5
15 October 2020	CR 5
4 February 2021	CR 3
20 April 2021	CR 6

Meeting Date	Item	Lead Officer
23 April 2020	**Private meeting with Director of Exchequer & Business Assurance Services to take place before the meeting	
	EY 2019/20 Annual Audit Plan; 2019/20 Pension Fund Audit plan	Corporate Director of Finance /Ernst & Young
	EY - Annual Grant Audit Letter	Corporate Director of Finance /Ernst & Young
	Draft Internal Audit Plan	Head of Internal Audit and Risk Assurance
	Internal Audit Progress Report 2019/20 Quarter 4 (including the 2020/21 Quarter 1 IA Plan)	Head of Internal Audit and Risk Assurance
	Counter Fraud Progress Report Quarter 4 2019/20	Director of Exchequer & Business Assurance Services
	2019/20 Q3 Corporate Risk Register - Part II	Director of Exchequer & Business Assurance Services
	Audit Committee Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
30 July 2020	*Private meeting with the Corporate Director of Finance to take place before the meeting	
	Approval of the 2019/20 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2020	Corporate Director of Finance /Ernst & Young
	External Audit Report on the Pension Fund Annual Report and Accounts 2019/20	Ernst & Young
	Internal Audit Charter 2019/20	Head of Internal Audit and Risk Assurance
	Annual Internal Audit Report and Opinion Statement 2019/20	Head of Internal Audit and Risk Assurance
	Internal Audit Progress Report Quarter 1 2020/21 (incl the Quarter 2 2020/21 Internal Audit Plan	Head of Internal Audit and Risk Assurance
	Counter Fraud Progress Report Quarter 1 2020/21	Director of Exchequer & Business Assurance Services
	Quarter 4 2019/20 Corporate Risk Register - Part II	Director of Exchequer & Business Assurance Services
	Annual Counter Fraud Report 2019/20	Director of Exchequer & Business Assurance Services
	Audit Committee Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
15 October 2020	*Private meeting with External Audit (Ernst & Young) to take place before the meeting	
	Annual Review of the Effectiveness of Internal Audit 2018/19	Director of Exchequer & Business Assurance Services
	External Audit Annual Audit Letter 19/20	Corporate Director of Finance /Ernst & Young
	Internal Audit Progress Report Quarter 2 2020/21 (incl the Quarter 3 2020/21 Internal Audit Plan)	Head of Internal Audit and Risk Assurance
	Counter Fraud Progress Report Quarter 2 2020/21	Director of Exchequer & Business Assurance Services
	Audit Committee Annual Report	Director of Exchequer & Business Assurance Services
	Annual Review of the Effectiveness of the Audit Committee 2019/20	Director of Exchequer & Business Assurance Services
	2020/21 Q1 Corporate Risk Register - Part II	Director of Exchequer & Business Assurance Services
	Annual Risk Management Report 2019/20	Director of Exchequer & Business Assurance Services
	Audit Committee Forward Programme	Democratic Services

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of the Local Government Act 1972 (as amended).

Agenda Item 9

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